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Foreign Agriculture

Washington State:
The Apple of Every Market's Eye

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Marketing News

MEF Hires Representative for Latin America/Caribbean

The U.S. Meat Export Federation (MEF) recently appointed Gerardo Perez as its representative in the Latin American/Caribbean region. Perez will develop markets for U.S. red meats and coordinate the Federation's activities in Central and South America and the Caribbean. He will work out of the U.S. agricultural trade office in Caracas, Venezuela.

One of Perez's first tasks will be to develop creative marketing programs in the Caribbean to promote less expensive cuts of U.S. meat, according to MEF's Vice President of Marketing/Administration Don Hellbusch. Hellbusch said tourism in the Caribbean has been declining, and consequently some hotels have become concerned with costs of importing high-quality cuts of meat. To contact Perez, write U.S. Agricultural Trade Office, Torre C-Piso 19, Centro Plaza. Los Palos Grandes, Caracas, Venezuela. Telex 29119 USATO VC.

U.S. Meat Supplier Directories Available

MEF recently published two U.S. meat supplier directories for distribution in Japan, Southeast Asia, Europe, the Middle East and the Latin American/Caribbean region. The *U.S. Meat Export Federation Member Suppliers* directory includes only MEF member-companies. It devotes a full page to each member, including the company's logo, listing of products available, contact names and other special information about the company.

The Directory of U.S. Meat Suppliers includes nearly 200 U.S. meatpackers, purveyors, processors and exporters involved in exporting. MEF members are highlighted in this directory, which also lists the types of products available from each company. The directory contains a special section listing firms involved in Islamic (Halal) slaughter and Kosher kill.

For a copy of either directory, contact Cindy Senesac, Tel. (303) 339-7151.

Bread for Breakfast Boosts Sri Lankan Wheat Demand

Sri Lanka's wheat use has increased by over 15 percent since 1983, spurred by increased consumption of bread products at breakfast. These items account for about 65 percent of total flour usage. The increase is partly the result of five years of intensive technical assistance, baking workshops and promotional campaigns sponsored and conducted jointly by **U.S. Wheat Associates** and the Sri Lankan baking industry.

"The convenience of bread is being recognized by this slowly modernizing society; however, bread has been readily available for years," observes Tim Oviatt, U.S. Wheat Associates' regional director for South Asia. "Better quality breads are becoming available, which makes them more attractive to the consumer," he added. Per capita wheat consumption is nearly 80 pounds now. The size of the Sri Lankan market for U.S. wheat in 1985 was about 300,000 metric tons.

U.S. Holstein Frozen Embryos Exported to Zimbabwe

The first U.S. Holstein embryo export to Zimbabwe was completed last fall by the **Holstein Association USA.** The buyer of this historical shipment of high-tech genetics was the Animal Breeders Company of Harare, Zimbabwe. A report from Zimbabwe confirmed that 90 days after the nonsurgical transfer of 81 embryos to native bovine recipients, 63 percent of the animals were pregnant.

A total of 77 U.S. Holstein and 10 U.S. Jersey frozen embryos were selected for importation. All exceeded minimum pedigree performance requirements for the dam of Holstein embryos. The Zimbabwean firm elected to purchase U.S. embryos instead of bulls because of ease of transportation, less restrictive health requirements and the assumption that animals born from native recipients and raised under local conditions would be more resistant to exotic African diseases.

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Washington State: The Apple Of Every Market's Eye

By Robert N. Turner

Most Americans take a big, juicy Red Delicious apple for granted. But consumers in many parts of the world have never tried one. That's the job of the Washington State Apple Commission—reaching overseas buyers and promoting the big red (or yellow) apples of Washington State. This month, FOREIGN AGRICULTURE talks with Robert N. Turner, international promotion director of the Washington State Apple Commission about the Commission's market development efforts overseas.

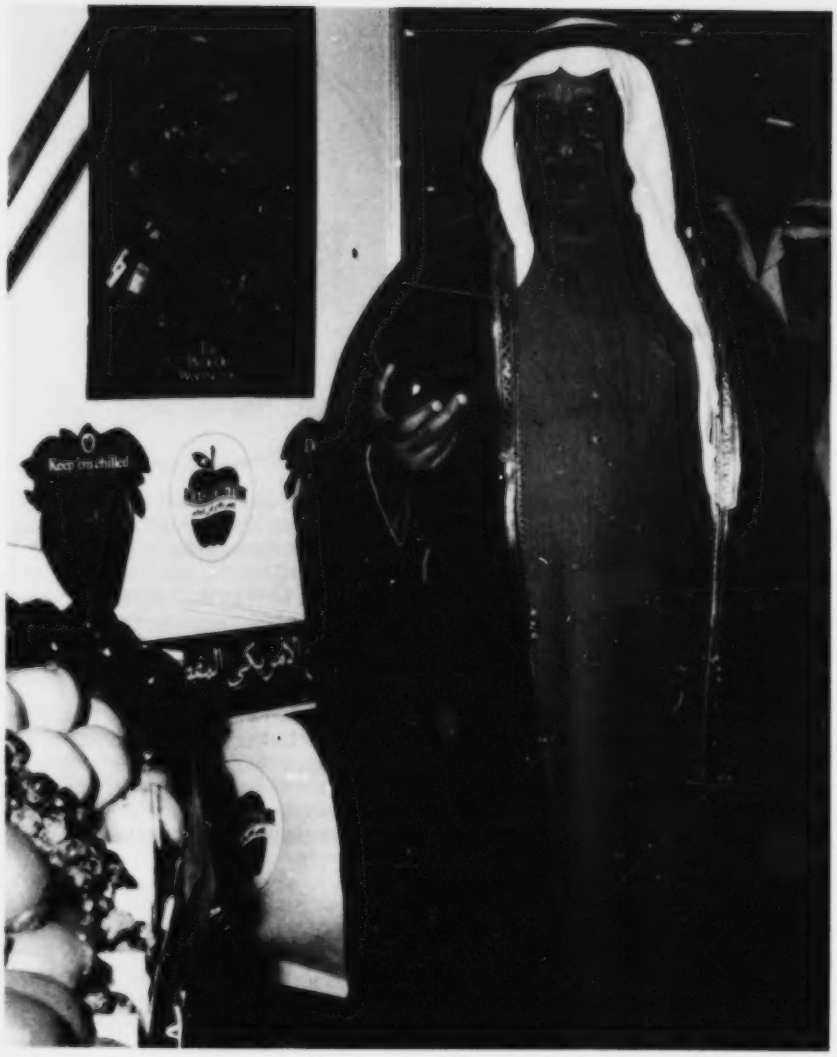
Q. Can you give us a brief overview of the Washington State Apple Commission and its goals?

A. The Washington State Apple Commission is the advertising and promotional arm of the apple industry of the State of Washington. It is completely supported by the State's apple growers through an assessment on every box of apples shipped either domestically or internationally.

Although the Commission was formed in 1937, it wasn't until 1983 that a specific budget and department were created to oversee export activities. Since Washington apples are exported to 65 countries around the world, it was high time that a separate activity was organized?

Q. Does the Commission promote both apples and apple products as well?

A. No. The legislation that established the Commission specifically limited its function to fresh apple promotion rather than apple products or by-products. We routinely receive overseas inquiries for apple juice and sauce, dehydrated apples and apple slices, however, and forward them to the



Washington State Department of Agriculture or directly to producers or manufacturers.

Q. What is the size of the export market for Washington State apples?

A. Roughly 20 percent of Washington's fresh apples are exported. That's about 8-8.5 million boxes (42 pounds each), with a value of approximately $100 million.

Q. What are your largest and fastest growing markets for Washington apples?

A. As a region, the Pacific Rim is the biggest market for Washington apples. Taiwan has been the largest single country market since 1979, with imports averaging 2 million boxes a year. It is followed by Hong Kong (1.5 million) and Singapore and Malaysia (about 1.2 million boxes between them.). These last three markets, by the way, are the fastest growing markets.

Until 1985, Saudi Arabia was the second largest market, importing approximately 1.75 million boxes each year. But with the decline in oil revenue and the completion of numerous major projects in Saudi

WASHINGTON
WORLD'S FINEST APPLES

WASHINGTON
أفخر تفاح في العالم

WASHINGTON
世界最佳蘋果

Arabia, many expatriates have left the country, which apparently has affected imports of Washington State apples there.

Interestingly, New Zealand—which exports apples to the United States—buys all of its imported apples from Washington State. (The two countries have opposite growing seasons.)

Q. What about Europe and South America?

A. Western Europe, specifically the United Kingdom, Norway, Finland and Sweden, are also important markets for Washington State.

Central and South America, although traditional markets for Washington apples, have shown a decline in the past few years mostly because of economic and monetary problems there.

Q. What are some of the activities the Commission conducts?

A. The promotion and advertising of Washington State apples is an ongoing activity worldwide. I personally travel about 150,000 miles a year to visit various off-shore markets.

In addition, we have merchandisers or public relations and advertising firms working on the promotion of Washington apples in Taiwan, Hong Kong, Singapore, Malaysia, Saudi Arabia and the United Kingdom. The representatives working in the United Kingdom also cover Scandinavia and other European countries.

Much of the work is done in direct contact with the trade—arranging for trade promotions, joint media advertising, participation in trade shows and in-store promotions.

However, we also do a certain amount of consumer advertising each year. For example, for the past two years, brightly colored, giant-sized posters promoting Washington State apples have appeared in the subway stations in Helsinki, Finland. Since a large proportion of the population there uses public transportation, the coverage of these posters reaches a large number of Finnish consumers who, interestingly enough, account for the largest market for Washington State apples in Scandinavia.

Q. What about in the Middle East?

A. Advertising is difficult or even nonexistent in the Middle East, so the emphasis there is on trade contacts and in-store or in-souk promotions. While there is a growing number of American-style supermarkets in Saudi Arabia, the vast percentage of fresh fruit is sold in the souks, which are the traditional marketplaces. The marketing activity plan for Saudi Arabia for this year calls for no fewer than 100 in-store or in-souk promotions for Washington apples.

Q. What kinds of activities do you run in Pacific Rim countries?

A. Washington State apples are advertised on television in Taiwan, Hong Kong and Singapore, and on billboards in Malaysia. We place additional posters in the Hong Kong subway stations, where they are seen daily by hundreds of thousands of consumers.

Hong Kong had its first "apple ambassador"—a young man in a red apple costume who has become tremendously successful with the younger set. Based on the success in Hong Kong, Taiwan also has an apple ambassador. Since Taiwan also buys Golden Delicious apples, the ambassador has a golden little brother. Both of these characters are used extensively in promotions and public relations.

For the past two years, the reigning Miss Washington has traveled to Singapore, Kuala Lumpur, Hong Kong and Taipei on behalf of the Washington State apple industry. Her arrival in each location kicks off a hotel menu promotion and in-store activities.

In its continuing efforts with the fruit trade of the world, the Washington State Apple Commission has participated in trade exhibits in Paris, Cologne, Singapore, Hong Kong, Taipei, London and Riyadh. As a result of these shows and other direct contact, the Commission maintains a direct mailing list of almost 1,000 names of fruit importers and dealers worldwide.

Finally, we have point-of-sale advertising materials available in 16 languages.

Q. What are some of the biggest obstacles you face in your work?

A. There are many. For example, in Japan and Korea, both of whom have substantial domestic production, apples are kept out of the country for fear of an alleged infestation of codling moth. This moth has been under control in Washington for 35 years, so the possibility of exporting it is remote, to say the least. However, this provides a nontariff trade barrier that effectively keeps our apples out of two potentially large markets.

Australia and South Africa restrict the importation of apples from countries and orchards subject to an orchard disease called fire blight which has been shown to not be transmitted through the mature fruit.

Central and South America, as well as other countries around the world, are having economic and monetary difficulties that have greatly reduced imports of apples.

Scandinavian countries have "open dates" at which time the importation of Washington apples is allowed. These dates are fixed by the respective governments in conjunction with local growers and importers.

It is interesting to note that Taiwan remains the No. 1 customer for U.S. apples despite a tariff rate of 67.5 percent of the landed value. The duty rate in Thailand is more than 100 percent.

The market share of Washington State apples in the United Kingdom is very small due to a combination of local production and third-country competition. However, this will be addressed and hopefully corrected through increased advertising and promotion.

In all cases where government intervention is producing a trade barrier, the Apple Commission works closely with other organizations and government agencies, such as the Northwest Horticultural Council, to identify the barriers and to work with U.S. government agencies in attempting to lower or remove these barriers.

Q. What sort of "homework" do you do before and after promotional activities?

A. Every country in the world is studied and monitored as a potential new market for Washington apples. When the first container is sold, the Commission's advertising and promotional efforts follow immediately. This is, of course, one of the great benefits of attending international trade shows that are visited by importers and potential importers from all over the world.

Q. What competition do Washington State apples face?

A. The competition for export markets is rapidly increasing. Many apple-producing countries have targeted the export markets developed by Washington State for its Red and Golden Delicious apples. Some countries have even shifted production from green apples to red apples in order to emulate Washington's product.

The competition in Western Europe is not only from domestic production, but also from France as a major apple producer. The U.K. market is heavily influenced by both South African and Canadian apples, as well as by French Golden Delicious.

Every apple-producing country in the world sells to Saudi Arabia, where one sees apples from Lebanon, Turkey, Greece, Eastern Europe, China, Japan and Korea.

The most intense competition is developing from the apple growers of Chile. Chile is shipping apples at a much lower price, due to lower production costs, to traditional Washington markets in Hong Kong, Taiwan and Singapore, as well as the Middle East and Europe.

The European Community subsidy for shipping French apples to Southeast Asia was removed only recently. That subsidy still applies to apples exported to the Middle East and Scandinavia.

Q. What do you do to counter this competition?

A. Countering the competition is based primarily on the continued "push" to show that the quality of Washington State apples is the finest in the world. Since our apples are always the highest priced apples on the market, it follows that our quality must be absolutely tops both externally (visually) and internally.

The emphasis of Washington State advertising and promotion is that there is value to be obtained for the money spent. We simply cannot compete price-wise with those of almost any other country in the world.

In countries where we enjoy a substantial portion of the market, our efforts are directed toward increasing consumption in general. In some markets, we stress both the nutritional value and the superiority of Washington apples.

Even though per capita consumption in many overseas markets is substantially larger than in the United States, there is considerable room for growth.

Q. How have things changed in the years you have been working for the Commission? And what do you see ahead in the future?

A. Since 1979, there has been a considerable increase in the interest in and emphasis on the export market.

Coincidentally, 1979 marked the dramatic increase in apples shipped to Taiwan and Saudi Arabia. Since then, exporting and promotions have become much more organized, selective and—quite frankly—sophisticated.

As competition from third-country producers increases for export markets, our advertising and promotion efforts must increase and be even more effective.

Not only are other countries getting more involved in apple exports, but our own potential production dictates even a higher percentage of apples going to overseas markets.

The Washington State Apple Commission recognizes this and the extended five-year strategy plan indicates an increase in its overseas budget on a cumulative basis each year for the next five years.

Efforts will continue in the direction of opening new export markets while, at the same time, advertising and promotional activities in established markets will increase. This will enable the Washington apple industry to secure an ever-increasing share of the world's apple trade. ■

The author is international promotion director, Washington State Apple Commission, Wenatchee, Wash. Tel. (509) 662-2123.

Despite Challenges, U.S. Remains Top Apple Supplier to Taiwan

By Dawn Gyawu

Since Taiwan opened apple imports to the private trade in 1979, U.S. apples, particularly Delicious varieties, have dominated the market. U.S. command of the Taiwan apple market is likely to continue but imports from other sources pose a significant challenge.

Prior to import liberalization, over 50 percent of Taiwan's apple imports were from sources other than the United States, mainly Canada, Japan and Korea. In 1979, apple imports increased tenfold and the United States emerged as the pre-eminent supplier.

Taiwan was the top export market for U.S. apples in 1985. Exports, valued at $13.2 million, represented 14 percent of the value of all U.S. apple exports in 1985.

According to U.S. trade statistics, exports during the first six months of the current marketing year are down 2 percent in quantity and 14 percent in value compared with the 1984/85 season, most likely in response to increased competition. Unofficial data shows a much sharper decline.

U.S. Considered Reliable Supplier

The United States is normally considered a reliable supplier of good quality apples. Abundant U.S. supplies and regular, reliable shipping service are factors in its favor. To maintain its market share, the United States must emphasize quality and offer competitive prices.

The apple market in Taiwan has changed significantly since liberalization. Strong competition emerged among Taiwan importers and apple-exporting countries for a share of the larger Taiwan market. The result is more diversity in sources of apple supplies and the availability of relatively low-priced apples almost year-round.

In Taiwan, imports of apples and other fresh fruit are generally handled by importers or agents. The importers and agents sell to wholesalers who in turn sell to retailers at a commission.

Firms regularly engaged in importing apples numbered about a dozen in 1983/84 and have since been reduced by half due to the competition.

The importation of apples from Japan is handled by the Central Trust of China (CTC), an official purchasing agency. Although private apple trade with Japan is not allowed, CTC imports small quantities for the Lunar New Year.

Consumers Are Quality-Conscious

Consumers in Taiwan are accustomed to year-round availability of a wide variety of fresh fruits and pay premium prices for seasonal fruits. They are increasingly quality conscious and prefer apples which are crisp, juicy, and have an excellent appearance.

Taiwan's apple imports consist mainly of Red Delicious from the United States and Canada, Golden and Starking Delicious from Chile and Fuji from Korea.

As increasing trend toward urbanization has meant changing marketing channels for food items although most fresh fruit is still sold by hawkers in small street-side stands. But there is a growing supermarket trade.

Wholesalers generally have access to cold storage facilities but once fruits leave those facilities, they most frequently remain unchilled until sold by hawkers.

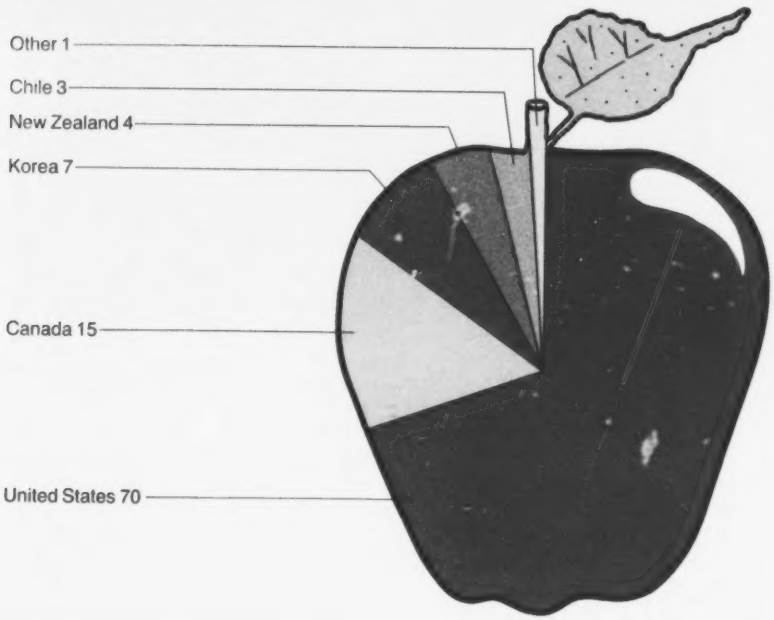
Seventy-five percent of U.S. apple exports to Taiwan are shipped during the October-February period. Canada, which enjoys a sizable market share, ships at the same time. Imports from Chile and New Zealand are brought in during March to June. They compete with U.S. and Canadian controlled-atmosphere (CA) stored apples.

Importers Prefer Fresh Supplies

Importers indicate a preference for fresh supplies from Southern Hemisphere countries because CA-stored apples have short shelf lives and often lack crispness and juiciness, two of the qualities most desired by consumers.

U.S. Apples Are Top Imports in Taiwan

(In percent)



The quantity of Taiwan's apple imports has varied widely in recent years. Imports peaked in 1981 at 75,436 tons, fell 33 percent in 1982, soared to 76,939 tons in 1983, then dropped 41 percent in 1984.

Changes in the method of shipping apples and in the method of assessing import duties on apples may have helped to cause variations in the quantity of apples imported in 1983 and 1984.

During the 1979/80 season, the first apple import season following liberalization, the majority of apples imported into Taiwan were in refrigerated containers. To reduce costs, importers increasingly requested that U.S. apples be shipped in dry containers.

By 1981/82, all apples imported into Taiwan from the United States were in dry containers. Shipping costs were $2-3 lower per box and apple imports increased, but were accompanied by high rates of spoilage. This damaged the reputation of U.S. apples.

Ban on Imports of Dry Van Apples

Taiwan officials banned imports by dry van in late 1983. By 1984, the level of imports dropped as importers adjusted to the higher costs of refrigerated shipments.

The import duty on apples is currently 65 percent ad valorem. In addition, a harbor surcharge of approximately 4 percent is levied.

Prior to February 1986, the duty was 75 percent. Also on February 1, Taiwan authorities eliminated a customs uplift charge on apple imports. Most recently, the charge was 5 percent, but had been as high as 15 percent.

In the past, importers and exporters sometimes understated the value of their apples in order to lower customs duties.

In October 1984, authorities, faced with losses of revenue, imposed a US$10.20-deposit per 42-pound box of apples imported from the United States. The deposit requirement has since been modified so that the amount importers must deposit is based on an estimated domestic wholesale price for differing grades and varieties.

The final tariff, assessed at a later date, is calculated on the basis of actual market prices.

Competitors Challenge U.S. Apples

Imports of apples from Canada, Chile and New Zealand pose a significant challenge to the United States. Canada's share of Taiwan's import market is slowly increasing and was 15 percent in 1984.

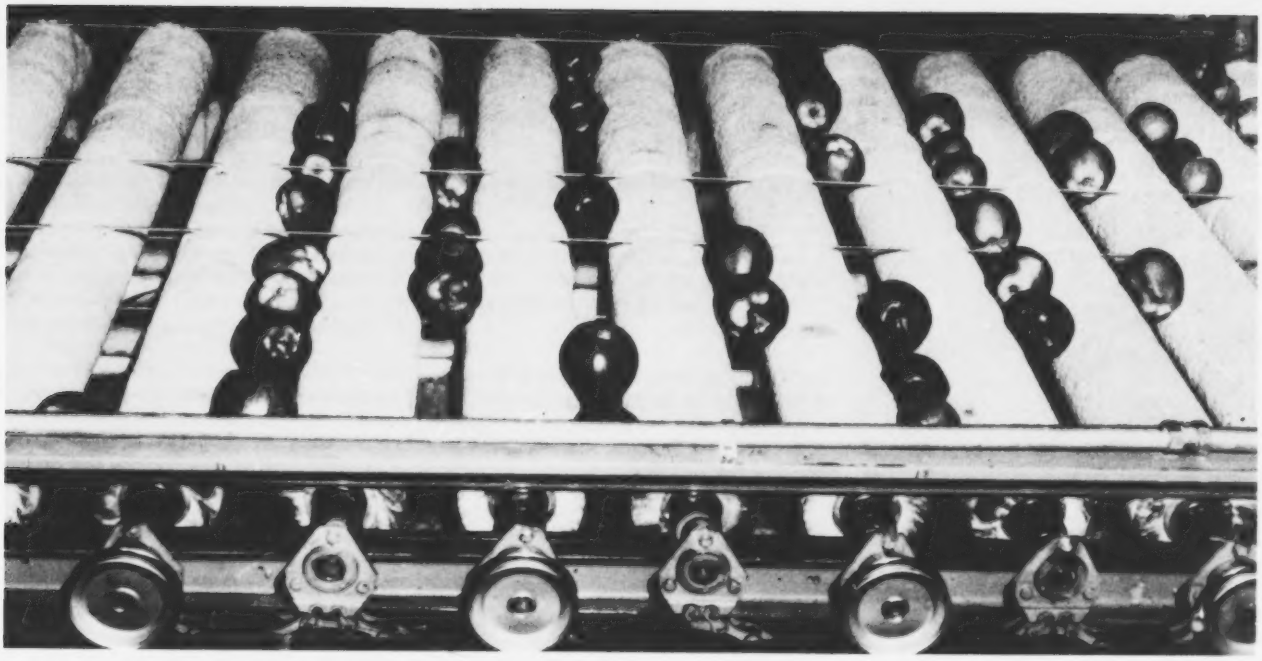
The high price of U.S. apples and the uncertainty surrounding customs valuation procedures have made Canadian apples relatively more attractive. Improved quality, simple clearance through customs and, in particular, low prices are frequently cited by importers as reasons for increasing their imports of Canadian apples.

Chile and New Zealand offer low-priced apples during a period when there are no other fresh apples on the market. For both New Zealand and Chile, transportation has constrained more rapid increases in their apple exports to Taiwan.

Although transportation costs are low, services from New Zealand's ports are less frequent than from U.S. ports. New Zealand's market share in 1984 represented a 100-percent increase from 1983.

Chile's market share was only 3 percent in 1984. Its performance has been hampered by a lack of scheduled reefer service. Imports arrive by chartered vessels.

Fuji apples imported from Korea are highly prized by consumers and are more expensive than other varieties. During the 1984/85 season, the average unit value of Fuji apples from Korea was 99 cents per kilogram, compared with 40 cents for U.S. apples. These supplies serve a special sector of the market.



Imports Supplement Smaller Domestic Supplies

In the two seasons preceding the liberalization of imports in 1979/80, domestic production accounted for two-thirds of Taiwan's total apple supplies. But today, imports supplement dwindling output of Taiwan's apples. Apple production peaked at 21,828 tons in 1979/80 and has not exceeded 15,000 tons since.

Production costs for apples are quite high. Taiwan is not ideally suited for growing apples. Only steep mountain slopes are sufficiently cool for apple cultivation and they do not lend themselves to mechanization. Labor alone accounts for about half of the total production costs for apples.

The major apple varieties grown in Taiwan are Golden Delicious, Starking Delicious and Fuji. The quality and appearance of Taiwan's apples are considered quite good due to improvements in postharvest handling. Imported apples, however, usually sell for 10 to 20 percent more than domestic apples because of their superior quality.

Apple cultivation was introduced in the mountains of Taiwan in the 1960s as part of a program to resettle retired veterans and to develop agricultural resources in the interior of the island.

Import restrictions protected the domestic apple industry from outside competition and domestic producers benefited from windfall profits due to limited supplies and high prices.

Domestic Output Limited by Many Factors

A number of factors constrain future expansion in the domestic apple industry.

—Availability of abundant supplies of good quality imported apples at reasonable prices.

—The high cost of domestic production.

—Severe damage to the environment in the main apple-growing area prompted officials to cease encouraging the planting of apple trees.

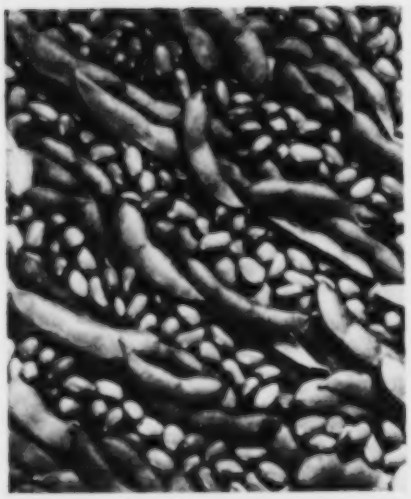
The policy of liberalized apple imports resulted in severe downward pressure on domestic apple prices and influenced growers' planting decisions. Increasing numbers of growers are concentrating on vegetable production, an activity in which some were already engaged as a secondary, though highly profitable sideline.

The future of the domestic apple industry in Taiwan will depend on whether remaining apple producers are willing to switch from Delicious and other U.S. varieties to higher value varieties such as Fuji.

In addition, research is under way to improve local varieties. Researchers believe that the successes achieved in developing improved varieties of local pears can be repeated for apples. ■

The author is with the Horticultural and Tropical Products Division, FAS. Tel. (202) 382-8911.

Soviet Union Re-Enters U.S. Soybean Market



By Floudia Bradley

In recent months, the Soviet Union has become an aggressive buyer of U.S. soybeans. Imports of U.S. soybeans are likely to reach record levels in 1985/86.

U.S. soybean sales to the USSR during January-early April 1986 totaled a record 1.4 million metric tons, exceeding the old record of 1.2 million tons purchased in 1978/79.

Soviet purchases of U.S. soybeans for the second quarter of the marketing year alone could easily surpass the old record of total soybeans imported.

This is in sharp contrast to only last year, when U.S. exports of soybeans to the Soviet Union dropped to zero during the 1984/85 (October/September) marketing year.

Imports Reflect Emphasis on Livestock

Heavy buying from the United States this year may be attributed to a strong commitment to maintain the domestic livestock sector, particularly poultry.

Higher output of livestock products is one of the major goals of Mikhail Gorbachev's new plan for Soviet agriculture. (See May 1986 issue of FOREIGN AGRICULTURE.)

The Soviets are determined to improve animal production efficiency and upgrade livestock feeds. To do this, they will have to boost high protein ingredients in animal feed rations. What portion of the protein will be from soybeans and where the soybeans will be purchased remains to be seen.

USSR Is Major Player in Oilseed Market

The USSR has emerged as a major force in the world oilseed and products market in the last decade. Soybeans are the only oilseed imported in significant amounts by the Soviet Union.

Prior to 1980, virtually all of the soybeans imported by the Soviet Union were of U.S. origin. Following the suspension of sales to the USSR in January 1980, Argentina became the largest supplier.

In recent years, Soviet soybean imports have averaged 1.2 million tons, with Argentina, the United States and Brazil alternating as the principal suppliers. Imports, however, have shown a downward trend since 1980/81, but are estimated to be on the increase in 1985/86.

The U.S. share of the Soviet soybean market increased to 43 percent in 1983/84 from 19 percent the previous year. A recovery of U.S. market share appeared on the rise, but exports in 1984/85 plunged, most likely because of bumper South American soybean crops.

U.S.-USSR Agreement Boosted Potential

The potential for U.S. soybean sales improved in 1983 when the United States and the USSR renewed a five-year grain supply agreement for 1983-88.

Under terms of the agreement, purchases of up to 500,000 tons of soybeans and/or soybean meal could be used to reduce the minimum purchase requirement for wheat or corn.

Although the soybean and/or soybean meal clause in the agreement does not require any minimum purchase of these commodities by the Soviets, it was generally considered a positive sign that the Soviets would remain a purchaser of U.S. soybeans and possibly soybean meal.

The Soviet Union began importing soybean meal in 1979 as a means of meeting increasing protein feed usage for an expanding livestock sector.

Soviet soybean meal imports grew steadily through 1982/83, when total imports reached 2.8 million tons. Meal imports have declined sharply since that time. Brazil and the European Community are the major suppliers of soybean meal to the Soviet Union.

A Turnaround in Soviet Feeding Plans

Feeding plans in the Soviet Union appear to have made a turnaround in recent

years. More serious attention is being given to policies providing incentives for domestically produced feed ingredients.

The Soviets are actively pursuing the expansion of a leguminous crop (field peas) because of its higher protein content. Hay, haylage, silage and high-moisture corn also are selected for increased output.

Soviet production of oilseeds, mostly sunflowerseed and cottonseed, has been stagnant for about the last 10 years. Increases in consumption of traditional protein meals have consequently been tied to imports, which have been sporadic and fluctuated dramatically from year to year.

The in-and-out nature of Soviet buying makes the task of estimating future import prospects difficult. Soviet authorities themselves admit that there is a substantial protein deficit in the livestock and poultry sector. This deficit can only have increased with recent expansion of livestock numbers in the USSR.

U.S. Plans Market Development Efforts

The American Soybean Association sees the Soviet protein deficit as a huge potential market for soybean farmers. To foster increased purcfhases of U.S. beans and meal, the Association has been providing the Soviets with technical assistance and information.

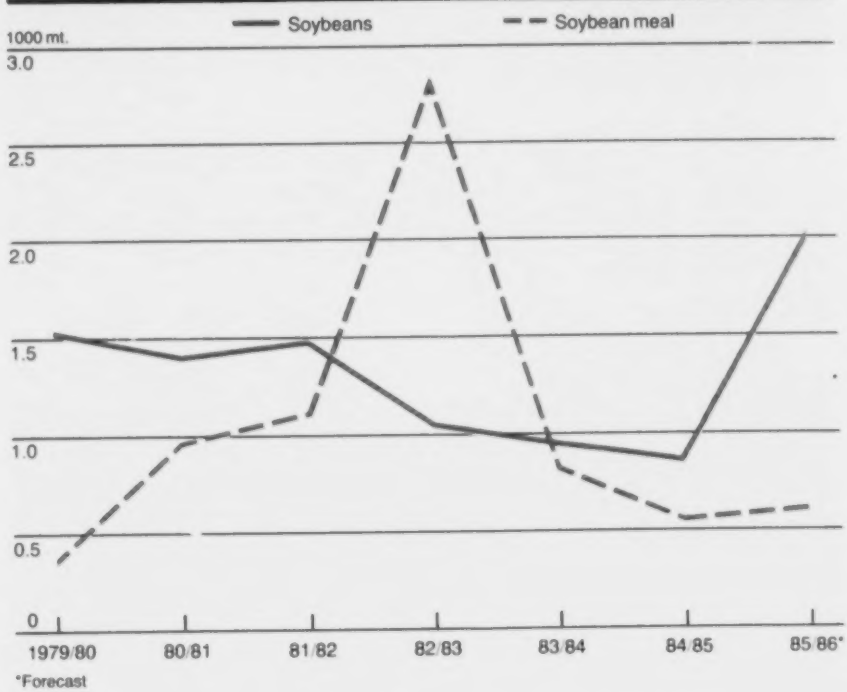
The Association participated in mixed feed seminars in April in the Soviet Union. This activity was conducted under the framework of the U.S.-USSR Agricultural Cooperator Agreement.

And preliminary plans have been made for joint cattle feeding trials featuring local feed ingredients and meal from U.S. soybeans.

The Soviets also have shown interest in increasing the use of vegetable oil products such as margarine and mayonnaise, according to the Association. ■

The author is with the Oilseeds and Products Division, FAS. Tel. (202) 382-8257.

Soviets Are Boosting Soybean Imports



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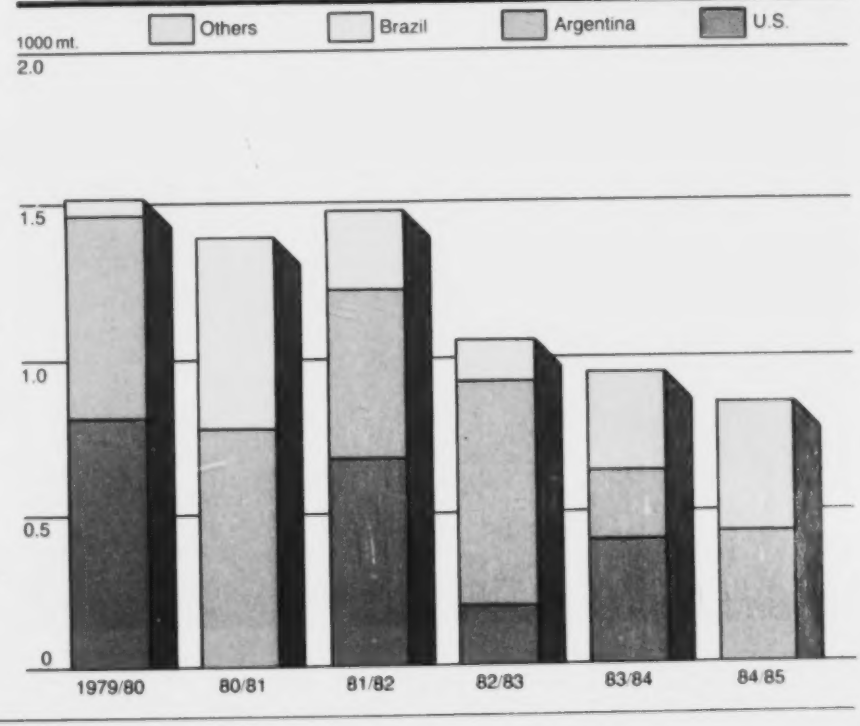
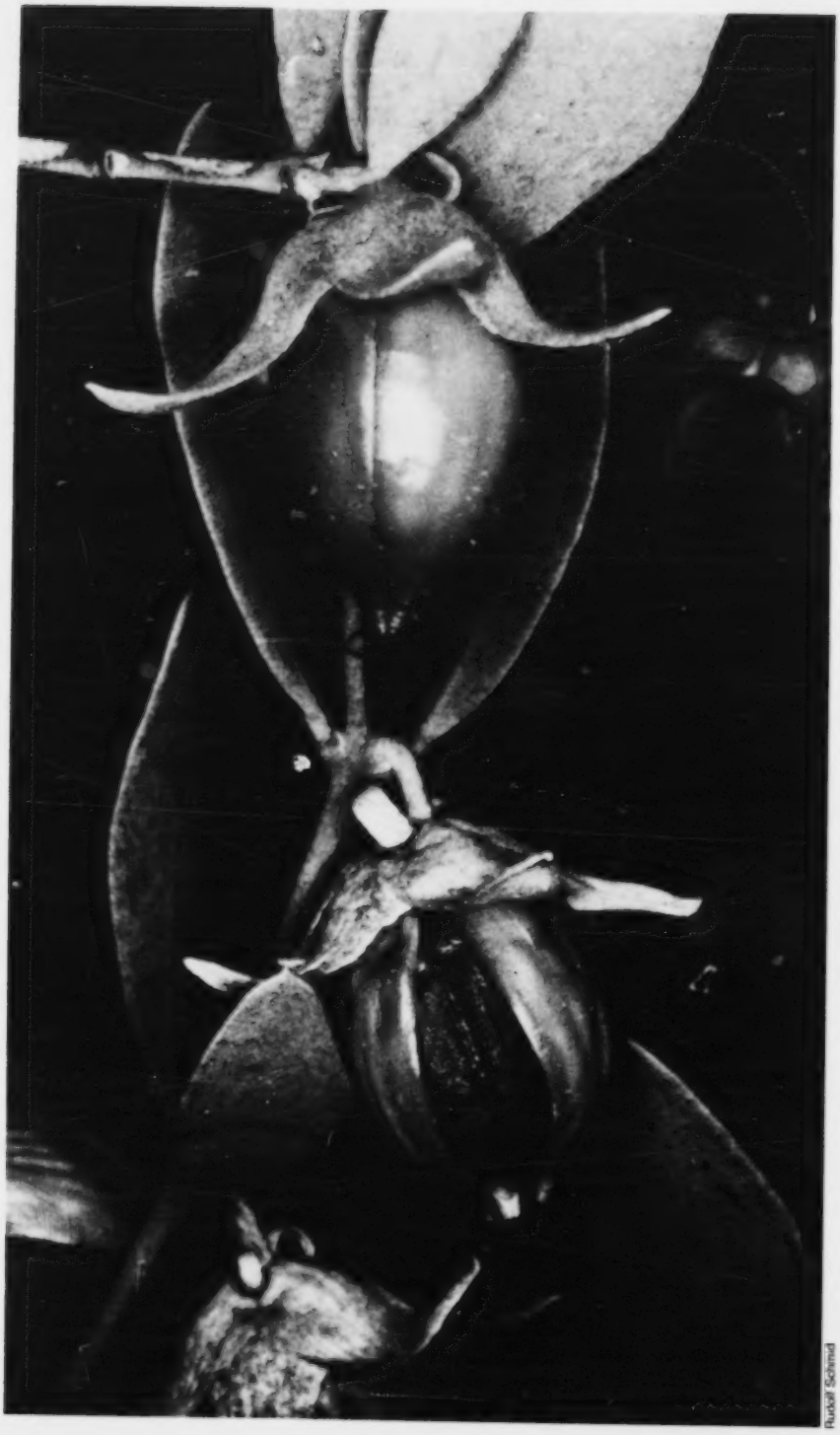
Competitors Have Been Taking Large Shares of Soviet Soybean Imports



Budding Jojoba Industry Gives Desert a New Look



Rudolf Schmid

By Frank J. Flider

Although many people have trouble pronouncing its name, jojoba (ho-ho-ba) has become much more than a curiosity. In fact, this native desert plant could be on its way to becoming an important new cash crop for the United States—and a leading contender for the jojoba oil export market as well.

Jojoba seeds contain a unique oil that offers exceptional commercial promise. Originally cultivated to replace the oil of sperm whales—which were brought to the brink of extinction as a result of heavy demand for their oil—jojoba is not only an ideal replacement but also a superior oil.

Today, the jojoba industry is looking far beyond the traditional applications of sperm oil.

Although data on the uses of jojoba is limited—mainly because it has not been commercially available in significant quantities until now—research indicates that it will have widespread uses. The oil has significant potential for a number of industries including cosmetics, pharmaceuticals and lubricants.

Cosmetic Industry Largest Market

Cosmetic industries in the United States and Europe that are willing to pay relatively high prices for the limited supplies of jojoba oil take the lion's share.

Over 300 products containing jojoba oil have appeared in the United States alone, but the products often contain only enough of the oil to permit the use of its name on the list of ingredients. Producers of most of these products have used jojoba for its "fad" value rather than its fundamental qualities.

Unlike lanolin, mineral oil and triglycerides, jojoba oil penetrates the skin, giving it great promise as a moisturizer. Tests also have demonstrated the ability of the oil to make the skin supple and smooth.

Jojoba oil's purity, lack of odor and resistance to rancidity make it a natural base for creams and ointments. Its use could expand significantly—perhaps displacing mineral oil, lanolin and other oils—when supplies increase and prices drop.

Experiments show jojoba oil also is an excellent anti-foam agent in the manufacture of antibiotics. Because of its ability to penetrate the skin, jojoba oil may be suitable as a base for medicinal ointments as well. Several pharmaceutical companies are investigating this potential.

Researchers also are investigating the oil's potential as a treatment for burns, acne and psoriasis. These dermatological applications, however, require extensive study and approval by the U.S. Food and Drug Administration and similar agencies before they can be marketed.

Lubricant Market Holds Potential

Jojoba's use as a lubricant is much more certain. Tests show that the oil has tremendous potential as a lubricant additive for heavy machinery, compressors, buses, trucks, magnetic media, jet engines, defense vehicles and other equipment.

Jojoba reduces friction between moving parts of an engine. In fact, one commercially available jojoba-based engine lubricant was shown to reduce wear by 43 percent. Tests also show that the addition of as little as 3 percent jojoba oil to transmission fluids can reduce operating temperatures by 30 to 50 degrees.

Widespread use of jojoba oil in automotive lubricants could reduce petroleum consumption by millions of barrels each year.

Other Industrial Uses

Jojoba has potential in several other applications including electrical insulators, transformer oils, disinfectants, detergents, fire retardants, candle wax and polishing wax for cars, floors, furniture and shoes.

Since the ban of sperm whale oil, the leather industry has been unable to find a suitable softening and tanning agent. Studies indicate that jojoba oil may be just as effective as sperm whale oil.

Jojoba oil also shows considerable promise in the textile industry. When used as a lubricant in the manufacture of synthetic fibers, studies indicate it reduces the fiber-to-metal friction by 18 percent.

Mexico Was Pioneer

Until recently, most of the jojoba oil on the market came from Mexico's wild jojoba stands. Although the largest single source of jojoba, Mexico's record native harvest was only 360 tons, yielding approximately 750 drums of oil. Due to drought, Mexico's 1986 harvest is forecast at only 100 tons—the equivalent of 200 drums of oil.

Marketing of Mexico's jojoba oil has been little more than a cottage industry, with several small companies vying for the limited business available.

Additionally, wide price swings and competition between these marketers has limited the potential for large-volume users. Over the past few years, prices have ranged from $30 to $200 per gallon, or the equivalent of $4 to $28 per pound.

U.S. Jojoba Plantations Spring Up

Today growers are attempting to produce this desert shrub on some 42,000 acres in the southwestern United States. Smaller plantations and trial plots are also under development in Mexico, Central and South America, Europe, Israel, Africa, Australia and India.

A commercial harvest of jojoba requires four to six years of cultivation. Most of today's plantations range in age from three to seven years.

This year a projected commercial harvest of 1,361 metric tons will make the United States the leading supplier of jojoba. Approximately two-thirds of the harvest (2,500 drums) will be marketed by the Jojoba Marketing Cooperative. The price is projected to be approximately $40 per gallon—the equivalent of $5.50 per pound.

Volumes are expected to double every year for the next several years. At full maturity, the current plantations will yield approximately 58 to 69 million gallons of jojoba oil.

By that time, efficient cultivation and extraction practices should result in prices ranging between $10 and $15 per gallon, or $1.50 to $2 per pound. At these prices, demand likely will outstrip supply.

Although new acreage undoubtedly will be planted, some cautious companies are already inquiring about long-term supply commitments, indicating that the demand for jojoba oil will increase in the future.

Japan Largest Export Market

Japan is the largest export market for jojoba oil. In 1985, Japan imported nearly 500 drums of oil, representing about one-third of the jojoba market.

The Japanese are particularly interested in the potential of jojoba oil as an automotive lubricant additive. Since Japan is almost completely dependent on foreign petroleum, the ability to reduce this dependence is of national interest.

Europe is also a large importer of jojoba oil, taking about 200 drums in 1985. Most of the oil is used in cosmetics and, to a lesser extent, by the pharmaceuticals industry.

Minor quantities also were exported to South America, Australia and Korea last year.

Jojoba's Role in the Future

Although there are many uncertainties inherent in growing and selling a new farm product, the agronomic future for jojoba looks promising.

Research in the areas of plant selection and cultural practices should help increase yields and bring down costs—two factors necessary to guarantee the widespread cultivation of jojoba and its place in domestic and world markets.

For additional information on jojoba farming, contact:

Dr. Hal C. Purcell
Jojoba Growers' Association
3420 East Shea Blvd.
Suite 125
Phoenix, AZ 85028
Tel. (805) 595-7708. ■

The author is executive director of JMC Technologies, Inc., a jojoba marketing cooperative in Phoenix, Ariz. Tel. (602) 996-1701.

U.S. Franchising Is Dynamic Sector in Overseas Business

The franchise system of distribution is a significant part of the U.S. economy and is a dynamic, growing business activity. It is increasingly accepted and respected by the public, all levels of government and by the business community.

Franchising has become a powerful force, partly because economic factors have made growth through company-owned units difficult for many businesses. By emphasizing independent ownership, franchising provides an effective method of overcoming such problems as shortages of capital, high interest rates and finding and hiring competent employees.

Franchising sales of goods and services in more than 478,000 outlets are expected to reach $576 billion in 1986, about 9 percent higher than a year earlier and about 72 percent over the level of sales at the start of the 1980s.

Movement by franchisors to foreign markets continues to grow at a rapid rate and in 1984 there were 328 U.S. franchisors with over 27,000 outlets located in most countries of the world.

Franchising Offers Good Growth Potential

It is the marketing sector which today offers the greatest opportunities for entry and growth of new business. Franchising is one of the most creative of the various marketinig techniques which have emerged in this century.

Today, the key to a successful franchise operation is a strong system. It is the system that provides the appearance that:

—all outlets belong to a chain;

—all franchises can follow;

—provides the know-how to franchisees to keep one step ahead of the competition; and

—will continue to provide abundant opportunities to all that want to fulfill the dream of owning one's own business.

Product and Trade Name Franchising

Product and trade name franchising began in the United States as an independent

sales relationship between supplier and dealer in which the dealer acquired some of the identity of the supplier.

Franchised dealers concentrate on one company's product line and to some extent identify their business with that company.

Typical of this segment are automobile and truck dealers, gasoline service stations and soft drink bottlers. Today, they dominate the franchise field, accounting for an estimated 74 percent of all franchise sales for 1986.

Total sales by product and trade name franchisors are expected to reach an estimated $425 billion in 1986, compared with $396 billion in 1985. Since 1972, the establishment of product and trade name franchisors declined at a rapid rate. The attrition rate is expected to slow in the next few years.

Business Format Franchising

Business format franchising is characterized by an ongoing business relationship between franchisor and franchisee that includes not only the product, service and trademark, but the entire business format itself. This includes a marketing strategy and plan, operating manuals and standards, quality control and continuing two-way communications.

Restaurants, retailing, personal and business services and rental and real estate services fall into the category of business format franchising.

Business format franchising has been responsible for much of the growth of franchising in the United States since 1950 and will continue to offer opportunities for those individuals seeking their own business.

Franchising Is a Growing Trend

Franchising will continue to widen its scope to include a variety of service industries including a broad range of computerized services, professional services and other areas geared to the needs of small- and medium-sized businesses.

More franchising is also expected in areas that specialize in health and fitness programs and in maid services. Other areas that show growth potential are temporary help services, ice cream outlets, video equipment sales and the automotive aftermarket.

Food retailers will continue to seek more efficient ways of appealing to the segmented food market. They will also attempt to obtain a larger share of the consumer's budget than is normally spent in restaurants. In addition, food retailers will compete fiercely among themselves for market share.

The trend of acquisitions of franchising companies is persisting, indicating that franchising is an integral and established method of conducting a profitable business. Rising costs and the proliferation of government franchise regulations have been cited as contributing factors in the increased use of the acquisition route as a means of expanding the franchising form of distribution.

Franchising Moves Overseas

U.S. franchisors are currently operating in most major countries or are engaged in serious negotiations about entering foreign markets. This indicates foreign nations have welcomed the entry of U.S. franchisors and that local laws and regulations have not been overly restrictive.

Franchising operations in foreign markets, however, involve many of the same problems confronting other business ventures. Language difficulties, differences in customs and sometimes unpredictable government decisionmaking are examples of impediments all U.S. franchisors encounter in other countries.

Problems Are Less Formidable

Compared to other service sectors, the problems of franchise companies in international transactions are relatively less formidable.

Franchisors must comply with the same local requirements as domestic businesses and the franchise agreements must comply with local contract law, antitrust law and trademark licensing laws.

There are no real trade barriers that discriminate specifically against U.S. franchisors. There are no specific regulations restricting franchise operations and no prohibitive laws governing franchising that differ from those which affect other types of business operations.

The population in many foreign countries is young and likes to try new products and concepts. In addition, more and more women everywhere are going to work.

This not only increases the family's disposable income, which is good for franchisors in the service and consumer products business, but it also reduces the amount of time spent in the kitchen and increases the demand for food purchased away from home.

Foreign developed countries are increasingly exhibiting the same attributes which fostered the surge of service industries in the United States. These include rising disposable personal income, growing demand for consumer goods and services, expanding urbanization and high consumer mobility.

A Department of Commerce survey reveals that 328 U.S. franchising companies operated 27,021 outlets in foreign countries in 1984; this compares with 305 franchisors with 25,682 outlets in 1983. Furthermore, an additional 137 companies have indicated that they are considering extending their U.S. operations to foreign countries by the end of 1987.

Small Firms Show Keen Interest

This interest has been expressed mostly by small- and medium-sized franchisors, marketing a variety of services and products. Of the companies seeking foreign markets, 32 are franchisors of business aids and services and 30 are restaurant franchisors.

The form of entry into foreign markets varies considerably, with many firms using more than one method in conducting foreign operations.

Of the 328 franchisors doing business in foreign countries in 1984, 307 sold their outlets to franchisees—either directly or through a master licensee who received the right to develop the franchisor's system in a specific country or region, 38 operated joint ventures; and 32 had some company-operated units.

Twenty-five of these companies derived 10 percent or more of their income from foreign operations, 31 firms received between 5 and 9 percent, 104 between 1 and 4 percent, and 168 received less than 1 percent.

Canada Is Top Market for U.S. Franchisors

Canada continues to be the dominant market for U.S. franchisors despite its declining share of U.S. foreign outlets. In 1984, 30 percent of all U.S. foreign franchised outlets were located in Canada, down from a high of 46 percent in 1971.

Japan continues to be the second largest market for U.S. franchisors, 72 percent of which represent various food categories such as restaurants, donut shops, ice cream stores and convenience food stores.

The United Kingom ranks third, with 2,456 outlets, while 4,427 outlets are located in all of continental Europe. ■

This article has been excerpted and adapted from the March 3, 1986, edition of Business America.

Creating a Yen for U.S. Health Foods in Japan

In many countries around the world, consumers are becoming more health and nutrition conscious. The Japanese are no exception.

The health food market in Japan has grown enormously over the past two decades. Most recently, its principal thrust has shifted from traditional health foods to dietary supplements.

Export opportunities exist for U.S. health food suppliers willing to meet Japan's rather stringent import requirements and to tailor their products for Japanese tastes.

Profile of Japanese Health Food Sector

The Japanese health food industry, in existence for over 20 years, has been sustained by the country's vigorous economic growth which has induced people to seek a higher quality lifestyle.

Japan's aging population is another factor in the growing sales of health foods. By the year 2000, it is projected that about one of six Japanese will be 65 years or older.

Prior to the advent of the modern health food industry in Japan, traditional health foods, such as natural foods, folk remedies and "Kampoyaku" (Chinese herbal medicines) dominated.

Around 1965, Japanese health foods, manufactured mainly by small- and medium-size firms, emerged as a separate entity from the food or pharmaceutical markets.

Double-Digit Growth

During the 1970s, Japan's health food market grew annually at a double-digit pace, bolstered by the rising national concern about health. The boon really began when Japanese food manufacturers introduced Vitamin E, nutritional beverages, soybean milk (tonyu) and similar products to the market.

Over the past decade, the health food market expanded about 12 percent per year and is projected to grow 5-15 percent annually through the remainder of the 1980s.

Although no statistical data on the Japanese health food market have been compiled, the All Japan Health and Natural Foods Association and the Ministry of Agriculture, Forestry and Fisheries has estimated the market at roughly $1.7 billion.

Imported products are said to represent about 10 percent of Japan's health food market. Thus, the import market is worth about $170 million.

No Consensus Definition Of Health Food in Japan

There currently is no consensus in Japan of what constitutes a health food. Each organization, whether a government agency, a trade association or a private firm has its own special definition.

Although concepts of a health food may vary, they fall roughly into three basic groups.

—"Kampoyaku" and Japanese folk remedy products which have long been believed to have certain medicinal qualities—for example, ginseng, herbal teas and extract of turtle. Nutritional supplements like certain vitamins and wheat germ oil are also in this group.

—General foods such as health drinks and soybean milk and dietetic foods like vitamin-enriched rice.

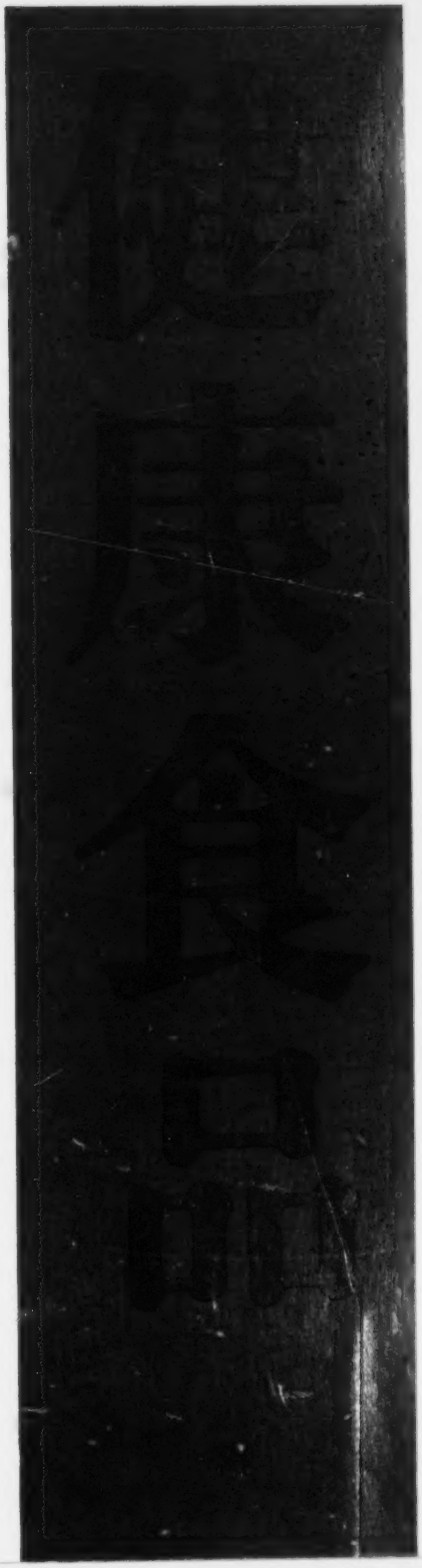
—Natural foods such as tofu, honey, brown rice and low-sodium, low-fat products.

Two Distribution Channels

Health foods are sold in Japan through two distribution channels—wholesale/retail outlets and direct sales by manufacturers. The direct sales system is more important, accounting for over half of all domestic shipments.

While potential exists for exports of U.S. health foods to the Japanese market, there are several areas in importing health foods for the Japanese market that exporters need to be aware of:

Ingredients and Additives There is no barrier to importing so long as the use of ingredients and additives in certain health



foods is permitted by the Ministry of Health and Welfare (MHW) under the Food Sanitation Law.

U.S. health food producers tend, however, to use colorings, artificial flavors, preservatives and sugar substitutes, such as saccharin. Their use is restricted in Japan.

Foods vs Drugs Because the MHW does not have a firm definition of a "health food," imported health food products are classified either as a drug or as a food.

Once an imported health food is classified as an over-the-counter drug under the Pharmaceutical Affairs Law, a license is required for its import. Each food must be registered with the MHW. And the additives used must be among those already approved by this regulatory agency.

All applications for registration must be supplemented by clinical data obtained in Japan.

Import Duties Health foods are not specially classified in Japan's tariff schedule. Therefore, they are treated the same as foods not categorized as health foods.

Government Regulations There are no special government regulations which either encourage or discourage the importation of health foods.

Major Constraints Remain To Be Solved

Product development to suit the needs of Japanese importers and consumers seems to be the first move to be made by American manufacturers and exporters. The specific needs are:

- Taste, flavor and packaging should suit Japanese consumers.
- Smaller portions should be packaged so they are more affordable.
- Order lot sizes should be smaller so the insurance risks for Japanese importers will be reduced. And,
- Shipment from seaports rather than from inland factories should be arranged for the convenience of Japanese importers.

Two Views on U.S. Health Foods

There have been both positive and negative comments on American health foods in Japan. Some positive remarks include:

—Some American health food products are unique and have attractive tastes. Examples are pure apple cider, carrot chips and dried fruit chips.

—The quality of U.S. and European products exceeds those of developing countries.

—Japanese consumers in general have formed a favorable impression of American or European food products vis-a-vis those from developing countries.

But on the negative side were these comments:

—American health food products are unfamilar to most Japanese other than importers.

—Prices tend to be high.

Distribution Is Weak Link

The distribution network for imported health foods in Japan is relatively weak, compared to the one servicing Japanese suppliers.

In general, importers lag far behind the leading domestic producers when it comes to financing, advertising budget, marketing capabilities and distribution coverage.

Therefore, one way U.S. health food suppliers may crack the Japanese market is through direct export to major domestic manufacturers or key department stores in Tokyo and Osaka.

Setting up a marketing organization in Japan appears to be the most effective way of entering the market providing the U.S. products appear extremely promising and the U.S. manufacturers concerned can afford the direct investment required.

Successful Cases of American Products In Japan

Although the imported health food market in Japan is relatively small and U.S. products are not well known, there are some products drawing special attention in the Japanese market.

These products are either strongly backed by U.S. door-to-door sales companies operating their own branch offices in Japan or by Japanese department stores.

Prior to importing, one of these door-to-door firms not only obtained clearance from Japanese authorities to import ingredients and additives but also conducted tests to identify the wants and needs of Japanese consumers in terms of taste and flavor.

Another U.S. firm imported its products in bulk and packaged them in Japan to reduce the cost of goods.

These successes of U.S. health food products suggest that it is possible to capture some niche in the Japanese market as long as the products have strong promotional support and a proper distribution channel. And this market should expand as a growing industry in a long run.

For more information on the Japanese health food market, contact the following trade associations:

All Japan Health and Natural Foods Association
Ichigaya-Tamachi 11-19
Shinjuku-Ku, Tokyo

Japan Health Foods Study Association
Ichigaya-Tamachi 1-19
Shinjuku-Ku, Tokyo

Japan Diet Food Association
Toranomon 34 Mori Bldg
7F, Toranomon 1-25-5
Minato-Ku, Tokyo

The Pharmaceutical and Health Food Industry Council
Zria Pharmaceutical Co., Ltd.
Nihonbashi Kobunecho,
10-11, Chou-Ku, Tokyo ■

This article is based on a study done by SRI International in Tokyo for the Office of the U.S. Agricultural Counselor there.

Country Briefs

France

Agricultural Exports Hit New High

French agricultural exports increased more than 6 percent in 1985 to a record-high of roughly $17.2 billion. France's agricultural trade surplus was also a record at about $3.8 billion, up 15 percent from the year before.

France is the world's second largest agricultural exporting country after the United States. About 17 percent of total French exports are from the agricultural sector. To maintain its export position, France carries out an aggressive program of market promotion and market information. These two activities are split between SOPEXA, the group for the expansion of sales of food and agricultural products, and CFCE, the French center for foreign trade, which is the information and statistical group. A number of separate commodity offices also contribute to export expansion by carrying out technical research and economic and marketing studies, often in collaboration with SOPEXA or CFCE.—Ernest Koenig, Agricultural Counselor, Paris.

Kenya

Strong Gains Made From Coffee Price Boom

Kenya's economy is benefiting from the latest surge in coffee prices, following drought damage to Brazil's coffee crop. With a large crop of about 130,000 metric tons coming on and large stocks, Kenya is one of the few countries readily able to increase exports of high-quality coffee. Kenyan coffee exports are expected to reach a record 120,000 tons or more this year, and could approach the record 1977 export earnings of nearly $500 million.

In 1986, coffee and tea are forecast to account for nearly three-fifths of Kenya's total exports. However, Kenya runs some risk in being so highly dependent on coffee and tea for its export earnings. In the future, beverage prices could be less favorable. Suspension of the International Coffee Organization (ICO) export quotas adds more uncertainty, but so far the Kenyan economy has realized large benefits from beverage exports.

During the last coffee boom year of 1977, real gross domestic product in Kenya jumped 9.5 percent and from 1976 through 1985 it grew by 45 percent. Many smallholders are involved in tea and coffee production and these earnings are widely distributed. The transportation and trading sectors have also benefited. In 1977 particularly, these sectors earned much from handling Uganda's coffee as well as that produced in Kenya. The government also reaps large financial gains from increased tax receipts, and a forecast budget deficit may turn out to be a surplus this year.

In 1985, coffee, valued at $40 million, accounted for 60 percent of the total U.S. agricultural imports from Kenya. Tea, at $13 million, was next. This year's U.S. coffee imports from Kenya are expected to rise in value to an estimated $46 million.—L.A. Witucki, Economic Research Service. Tel. (202) 786-1680.

Saudi Arabia

Livestock and Poultry Industries Make Big Gains

Saudi Arabia's push for self-sufficiency is getting good marks in the poultry sector. Increases in production, aided by generous domestic subsidies and protected by tariffs, have helped Saudi producers surpass the government goal for shell eggs and attain more than three-quarters of self-sufficiency in poultry meat.

The development of the industry has not been without problems, however. The ease of entering the field brought in many less-competent producers and, as egg production reached the saturation point, some have dropped out. The losers faced numerous problems long solved in countries with more experience: marketing, production control, feed formulation and use of spent hens.

The broiler sector is still growing but it, too, has problems. The Saudi preference for live birds has complicated marketing. Problems with feed formulation affect this sector as well.

In the dairy sector, there is still a way to go to reach self-sufficiency, although significant progress is being made. Notable improvements have been made in marketing. The national dairy herd continues to increase, both through increases in existing herds and establishment of new ones. The main problem dairies face would seem to be climate (in some areas) and feed formulation.

Sheep dominate the livestock sector and dozens of licenses for sheep-feeding operations have been issued in the past year. Local beef production is still almost insignificant with dairy culls and bull calves probably providing most of the locally produced beef. Despite the fact that Saudis

are mutton eaters, there is an increasing interest in beef feedlots, one even for beef-breed cattle, and several new lots may begin operations within the next year. Feed formulation will probably be a problem for the livestock sector as well as for poultry.—Jerome M. Kuhl, Agricultural Trade Officer, Jeddah.

United States

Consumers To Pay Higher Pepper Prices

Tight world stocks of pepper have already been reflected in the near doubling of prices over the past year. New York spot prices in late March were being quoted at around $2.42 per pound, compared with $1.30 a year earlier. Pepper is the world's most important spice and is found in almost all U.S. households and restaurants.

World pepper consumption has outstripped production during the past several years, resulting in a stock drawdown. Bad weather last year greatly reduced output in several key producing nations—and stocks are now at extremely low levels. Unfavorable growing conditions in Indonesia reduced production, while India's crop was also significantly lower. The remaining two large pepper producers—Brazil and Malaysia—also suffered production cuts. Malaysian farmers have been shifting to more profitable crops such as cocoa, while Brazilian growers have neglected to make new plantings and have reduced cultural practices because of credit shortages and high production costs.

Supplies are expected to remain tight and prices could stay high for some time since it takes three to four years for new plantings to come into production. However, some relief could come from the bumper 1986 crop being harvested in India.—Rex Dull, Horticultural and Tropical Products Division, FAS. Telephone (202) 447-2974.

Nigeria

Agricultural Imports To Decline Sharply

Nigeria's imports of food and agricultural raw materials are expected to fall to around $1 billion in 1986, largely because the government has delayed issuing import licenses in the face of declining oil revenues. U.S. agricultural exports to Nigeria may fall by about 25 percent.

The government's effort to conserve foreign exchange by cutting agricultural imports has been aided by the excellent 1985 harvest. However, because of lack of proper storage facilities, supplies left from last fall will begin to deteriorate when the rainy season arrives.

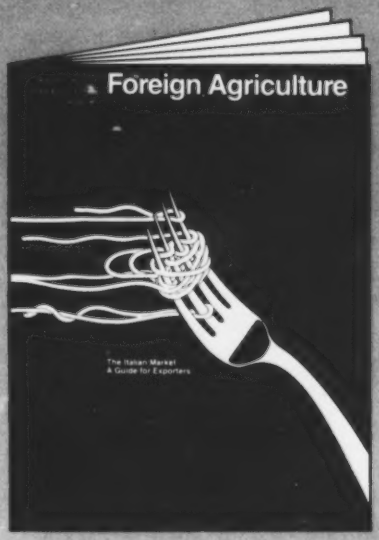
While in past years the bulk of adjustment in agricultural imports has come (except for rice) at the expense of other exporters, the United States can expect its food shipments to be hit by the current cutback. The delay in issuing import licenses for wheat may trim U.S. wheat exports by about one-quarter from last year's record 325 million tons. Even if mills eventually receive licenses in the neighborhood of last season's levels, they will face difficulties in importing and milling the 1985 total of 1.85 million tons of wheat. Further, U.S. qualities are under increasing pressure from Argentine and Canadian wheats which became considerably cheaper in 1985.—Christopher T. Goldthwait, former Agricultural Attache, Lagos.

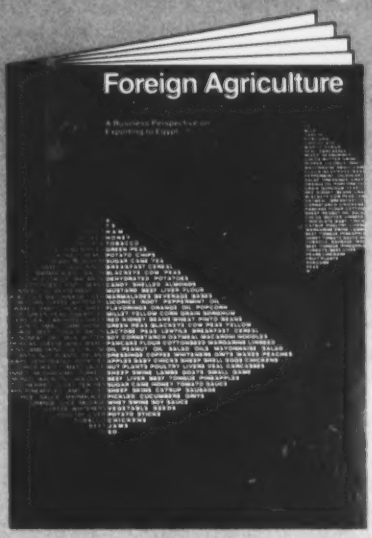
Indonesia

Central Buying Agency Created for Cotton

The Indonesian government has created a central buying company responsible for purchasing and distributing all domestic and imported cotton and fiber for use in the Indonesian textile industry. Each cotton user will continue to negotiate and contract with foreign suppliers for their individual cotton and fiber needs. However, the letter of credit must be opened by the central buying company. In addition to handling all imports, the central group will be responsible for purchasing all domestically produced cotton and allocating it to the various end users. Local mills are required to purchase domestic cotton equal to 10 percent of their imports.

The creation of a central buying agency is an obvious followup to an earlier government decree that mandated that one ton of domestic cotton must be purchased before 10 tons of foreign cotton could be imported. Indonesian textile interests objected to the earlier decree, citing the fact that domestic cotton production could only satisfy 5 percent of the industry's cotton needs instead of the 10 percent implied by the 1 to 10 ratio. The creation of the central buying company seems to insure that all domestic cotton will be purchased and that each end-user will be able to obtain a sufficient supply of cotton and fiber.—Robert M. McConnell, Agricultural Counselor, Jakarta.





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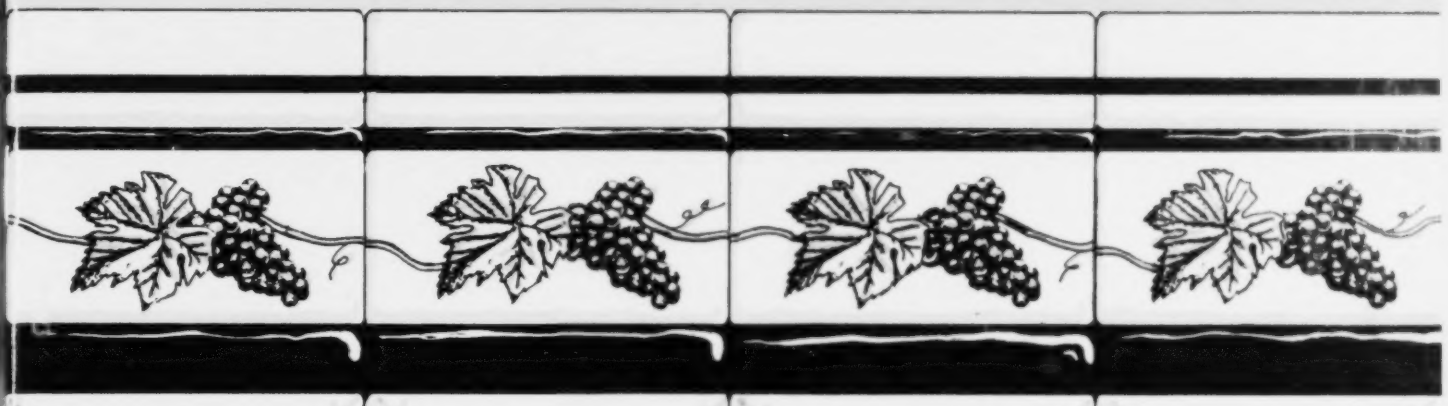

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Marketing News

U.S. Wheat Assists Indian Flour Milling Industry

To upgrade and diversify the diets of its people, as well as to increase consumption of wheat-based foods, the Indian government is encouraging local millers and bakers to develop their industries.

U.S. Wheat Associates is playing a major role in helping bring modern flour milling technology and information to India. Over the years, U.S. Wheat has sponsored a number of seminars aimed at increasing not only the quality of Indian-produced wheat flour, but also at boosting the efficiency of Indian flour mills, which last year operated at only 56 percent of capacity.

"We want to help provide the Indian milling industry with the latest technical information and train millers on the latest equipment," said Pat Kandhari, U.S. Wheat's director in India. "At the same time, we will continue to work with Indian bakers to help them raise the quality of wheat products they produce."

NRA Sponsors Market Development Activities in China

The **National Renderers Association (NRA)** hosted a two-week study program for four representatives of the China National Cereals, Oils and Foodstuffs Import and Export Corporation (CEROILS) this past spring. The team had the opportunity to assess the U.S. rendering industry through visits with industry members and facilities. The Chinese market for tallow is a large one, with current imports of between 40,000 and 50,000 metric tons per year, of which the United States supplies only 1,000 tons. Now that the Chinese are acquainted with the quality and low cost of U.S. tallow, exports could increase.

Last spring, the NRA also sponsored a feed milling seminar in China, covering the addition of fat to feed ingredients. The seminar was in cooperation with the **U.S. Feed Grains Council,** which is building a feed mill there. The seminar was the second in a series of such programs sponsored by NRA to complement the building of the feed mill.

Taiwan Duck Production Increases U.S. Feed Grains Demand

Recognizing the potential for growth in feed grain use in Taiwan, the **U.S. Feed Grains Council** implemented a duck feeding project there in 1977. A recent evaluation of the Council's program to improve duck nutrition presents an encouraging picture. Today, more than 70 percent of egg-producing ducks and 85 percent of meat-producing ducks are on pelleted formula feed, with the percentage rate still climbing. The Council's input to the program can be credited for the use of nearly 170,000 tons of feed grains in Taiwan during the 1977 to 1985 period. The total estimated increase in U.S. grain sales attributed to the program exceeds $33 million. The direct dollar impact on U.S. feed grain exports for every dollar invested in this project was $339.

Traditionally, farmers fed ducks a "trial and error" mixture of rice, scraps, vegetables, raw fish and expensive imported feed meal, resulting in less healthy and less productive birds. The Council funded research in duck nutrition, technical advice from U.S. duck nutrition experts and seminars to disseminate feeding information to farmers and feed industries. Through the research, a standardized system of feed formulations was developed. These feeds were pelleted to facilitate handling and, most importantly, to reduce feed loss.

An added benefit has been seen as fish farmers also began using the pelleted formula in 1980. (Farmers often raise ducks and fish in the same ponds.) Feed grains now make up 10 percent of formula fish feed in Taiwan. And 50 percent of the growth in formula feed for fish has occurred in conjunction with duck feeding. In short, the duck program has led to a 7,700-ton increase of feed grains for fish since 1980.

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Spain in the EC: Who Pays the Price of Enlargement?

By Edmund L. Nichols

This month, ***Foreign Agriculture*** *looks at Spain—its accession to the European Community, its agriculture and the likely implications for U.S. agricultural exports to this market. It also examines what could be one of the country's thorniest issues—its abundance of wine.* ***Foreign Agriculture*** *will look at the impact of accession on Portugal in a future issue.*

Spain's entry into the European Community (EC) on January 1 was one of the primary agricultural events of the year for Europe. It was significant for world agricultural trade as well.

For all the celebration that attends the long-anticipated economic and political linkage of the Iberian Peninsula with the rest of Western Europe, there are prices to be paid—by Spanish farmers, by the EC itself and a disproportionate amount by Spain's third-country trading partners, notably the United States.

With the implementation of the EC's Common Agricultural Policy (CAP) in Iberia, the EC's production and marketing schemes and trade regimentation will influence nearly half of the free world's cash commerce in agriculture.

There is little wonder why the United States and other major agricultural exporting countries are reacting strongly to the implications of the terms of EC enlargement on established market access and General Agreement on Tariffs and Trade (GATT)-bound trading rights which have been affected.

A Billion-Dollar Market in the Balance

At its peak in 1982, Spain was the sixth largest customer ($1.8 billion) for U.S. farm exports. Although improved domestic production, increased competition from other suppliers (particularly for soybeans) and the strong dollar affected U.S. exports, 1985 sales still amounted to $1 billion.

As a result of accession, however, the United States will be disadvantaged on exports of corn and soybeans—the two major Spanish imports from the United States.

Corn, worth $325 million, was the top U.S. export to Spain in 1985. Shipments have averaged at least $400 million annually over the past 10 years. Because of the introduction in March 1985 of the EC variable levy on grains, U.S. feed grain exports to Spain are expected to decline drastically.

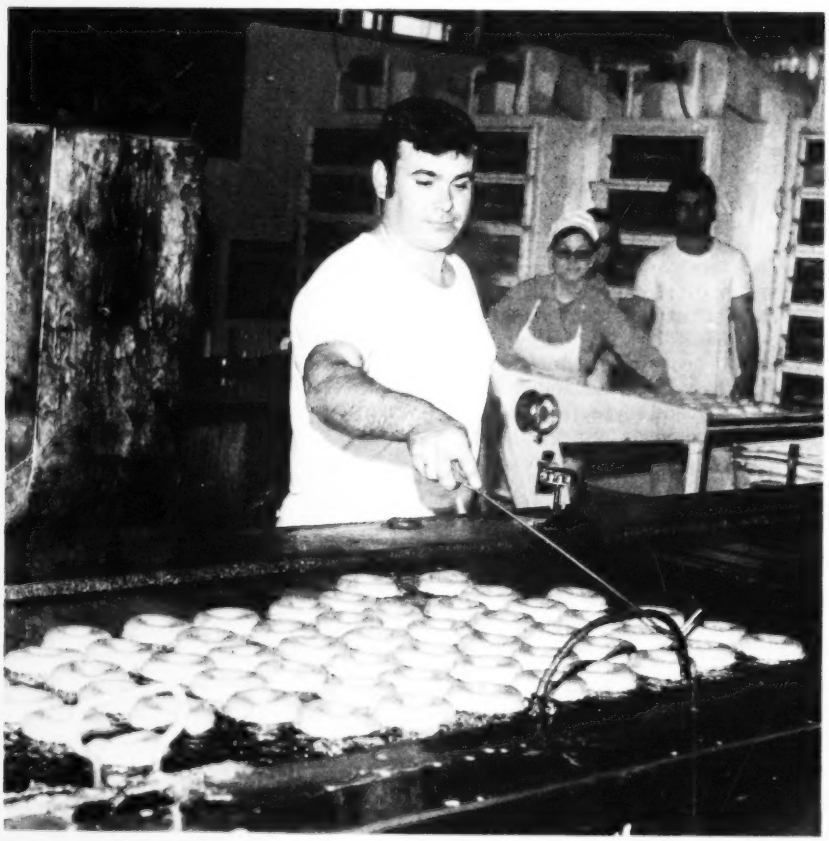
A transitional arrangement providing for continued access for U.S. feed grains would have been logical—not only to U.S. exporters but also to Spanish livestock producers whose production costs are going up markedly as EC grain prices take hold.

Paradoxically, the EC accession agreement does not eliminate Spain's limitation on domestic consumption of soybean oil, which has had a decided effect on the quantity of U.S. soybeans imported. Over the five-year transition period, market access for soybeans in Spain will continue to be more restricted than in the Community at large.

Feed Grain Users Not Consulted

As the major feed grain-deficit country in Europe, Spain was expected to insist on continued access to feed ingredients at reasonable prices for the good of its own animal sector.

For whatever reason, neither the affected dairy, livestock and poultry sectors nor industrial users of corn were consulted by Spanish negotiators working on terms of EC accession.



Commodity groups and farm organizations were not consulted on the enlargement negotiations process. Although these groups eventually did complain about many of the terms of accession which work to their disadvantage, they did so after the treaty was signed.

As a conciliation to milk and meat producers, who sensed the strong threat of competition from efficient, grain-rich northern European producers, Spain managed to achieve some safeguards toward limiting imports of these products.

Quota Effects Not Fully Known

Although the specifics of the special trade mechanisms that will put quotas on some products are not yet fully known, it appears that there will be a negative spillover effect on such third-country exporters as the United States.

For example, Spain recently deferred to the Community for guidelines before allowing import licenses for U.S. edible meat offals. In recent years, the United States exported 2,000 metric tons of these products annually to Spain.

The United States will continue to insist on its rights for market access that, in this case, should be more liberal, not more restrictive, following accession.

U.S. Reviewing Its Options

At present, the United States is considering its options on how to respond to the coolness with which the EC Commission, with the apparent support of member countries, has turned down the U.S. request to maintain fair market access in Spain for U.S. corn or to be fairly compensated for the trade loss.

This elicited a response in the form of a March 31 White House announcement which reiterated the U.S. request for compensation negotiations for the breached feed grain bindings by July 1. It also indicated U.S. intentions to raise duties on a number of EC agricultural imports in the absence of such negotiations.

The EC's response has been that, knowing all along what the terms of accession were, the United States should have protested sooner. The EC has taken the position it took at the time of Greece's accession: it is due credit because of overall liberalized trade regulations which it says will improve U.S. access to Spanish markets for industrial products.

The United States denied this "credit" concept when Greece joined the EC and denies it now. The GATT is clear in saying that the United States does not have to accept the compensation offered.

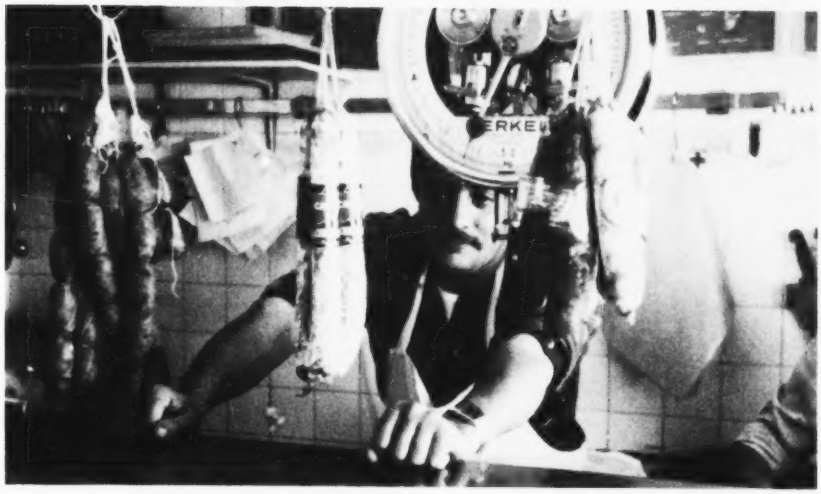
There is a cost to the EC's adding 2 million more farms and 24 percent more farmers to its rolls. There is also a cost for taking on the complexities of an abundance of Mediterranean produce.

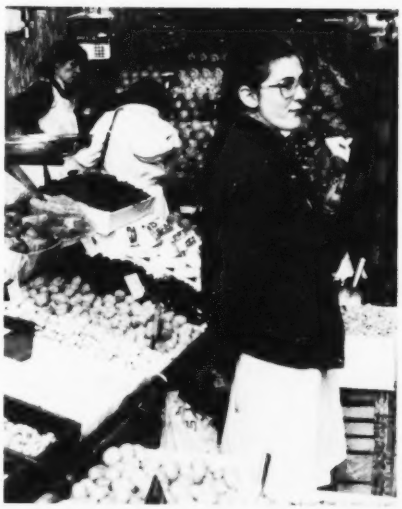
At the same time, the EC has clearly bought itself a new marketplace for products produced in northern Community countries. And the EC has been less than generous with Spain's production quotas on such shared products as sugar.

No Net Gains After Accession

There are no immediately apparent advantages for U.S. trade access on any food and agriculture-related products as a result of accession. If the case of offals is any benchmark, trade access has become more complicated.

Nonetheless, U.S. agricultural exports to Spain will remain important. The U.S. goal will be to keep Spain in the billion-dollar-market column.





The Outlook for 1986

The outlook for U.S. soybean exports to Spain in 1986 is an improved one. As for corn, even at higher prices, there will be some demand for U.S. corn because of its preference for certain uses. With continued market development efforts, markets can be sustained for forestry products, pulses and seed. Enlargement will be costly to the United States in terms of exports, but U.S. exporters must adjust to the changes and do their best to minimize the cost. ■

The author is the U.S. agricultural counselor in Madrid.

New Market Outlook as Spain Joins the EC

Black Star

By Nancy Hirschhorn

For the past several years, Spain has ranked consistently among the top 10 importers of U.S. agricultural commodities.

Although sales dropped slightly last year, declining to around $1 billion, U.S. farm exports to Spain accounted for over one-quarter of Spain's total imports. The small drop in purchases was due to reduced demand for soybeans, feed grains and leaf tobacco and the appreciation of the U.S. dollar.

Among the U.S. commodity leaders on the Spanish market last year were: 2.5 million metric tons of corn valued at $325 million; 1.1 million tons of soybeans, valued at $265 million; 22,500 tons of leaf tobacco worth $179 million; 31,200 tons of cotton valued at $46 million; and 62,900 tons of forest products worth $31 million. Other leading imports from the United States included peanuts and variety meats.

Coping With EC Policies

The future of U.S. agricultural exports to Spain will be greatly affected by implementation of the EC's Common Agricultural Policy and its system of variable import levies on grains.

Spain has maintained relatively high tariffs for certain agricultural products. In accordance with the EC Treaty of Accession on March 1, 1986, however, Spain has begun to modify its tariffs.

Spanish tariffs on imports from other EC countries will be dismantled progressively over seven years for most agricultural products. Tariffs on fresh fruits and vegetables and olive oil will be phased out over the next 10 years. Spain will gradually align its tariffs with the EC's Common Customs Tariff (CCT) for imports from third countries.

Spain's adoption of the CCT is expected to result in greater market access for many products for which Spain has maintained high-tariff and nontariff barriers.

In the case of some products, however, membership in the EC will require Spain to implement the EC system of variable levies. The levies will raise the level of protection on such key commodities as corn and sorghum.

Market Opportunities at a Glance

Soybeans and Meal
Although facing increased competition from sunflowerseed production, Spain's soybean meal consumption will remain high but less than in the recent past. This will be reflected in imports of about 2.1 million tons of beans and 750,000 tons of soybean meal.

Restrictions on soybean oil use, however, will continue in the short run to result in the exportation of most of the oil produced in Spain, along with substantial quantities of meal.

Feed Grains
Implementation of the EC variable levy will reduce Spanish imports of U.S. corn significantly. These imports have averaged more than 2 million tons a year for the past five years.

Wheat
The liberalization of Spanish wheat trade should open up a market for U.S. exports of high-protein wheats. At the same time, the EC accession treaty establishes target quantities to be imported from the EC during the next four years.

Rice
Spain will remain an importer of about 30,000 tons of paddy rice annually for milling and re-export. Spain will export at least twice that amount.

Pulses
Although Spain is already a substantial market for U.S. lentils, beans and peas (imports from the United States exceed 7,000 tons annually), potential remains for expanding the market and the U.S. share.

Tobacco
Spain is a large market for U.S. tobacco, having purchased 22,500 tons in 1985. With growing demand for "light" cigarettes, the potential for increased sales of U.S. leaf is good despite Spain's efforts to increase its production of flue-cured tobacco.

Cotton
While prospects are for increased production, cotton imports should continue to be roughly 50,000 tons. The U.S. share has hovered around 30 percent.

Tallow
Tallow imports from the United States are expected to continue at a level exceeding 35,000 tons annually. Imported tallow is used in the soap, chemical and feed industries.

Feed use is expected to increase in conjunction with the greater use of byproducts in rations. Over time, demand for high-quality edible tallow may grow.

Hides
Spain is a major importer of hides and skins, with purchases from the United States totaling $24 million in 1985. Competitive pricing and promotion could increase this figure.

Nuts
A growing market for edible peanuts, Spain imports over 25,000 tons annually, half of which come from the United States. In addition, Spain is usually a good market for pecans and walnuts. Total 1985 imports were 12,000 tons, with the United States accounting for 90 percent of the market.

The outlook is excellent for future exports of peanuts and walnuts, although the situation currently is complicated by the EC's special tariff imposed in response to U.S. actions on pasta and citrus. Spain has been included in USDA's targeted export promotion program for walnuts.

Dried Fruit
U.S. prune and raisin sales to Spain totaled over 2,000 tons in 1985, and growth in this market is possible.

Consumer-Ready Products
Spain is importing close to $500 million of miscellaneous consumer-ready food products, and there are opportunities to increase the U.S. share with appropriate promotion. U.S. exports to Spain exceed $100 million and should grow after Spain's integration into the EC.

Livestock and Meat
Imports of beef and variety meats will be subject to EC quotas. These quotas will specify maximum annual amounts to be imported from other EC countries under the supplementary trade mechanism, as well as those from third countries. Live animal imports also will be subject to a quota, as well as restrictive EC health regulations.

Imports of pork will be liberalized, subject to EC threshold prices.

Forest Products
Spanish imports of forest products are expected to remain strong. Imports in 1985 were about 1.6 million tons. ■

Accession Will Have Varying Effects

The Spain-EC Treaty of Accession includes a system of special trade mechanisms (STM's) designed to prevent Spain from being deluged with competitive products from other EC countries.

The treaty also provides a link in the STM scheme for third-country imports, and this could disadvantage some U.S. exports, possibly horticultural products and meat. The U.S. agricultural counselor has already engaged Spanish trade officials on this issue.

Spain's nontariff import controls, like its quantitative limitations and licensing requirements applying to the Peninsula and the Balearic Islands, will be replaced by a system which is currently being developed.

Global import quotas will disappear and the existing licensing system for the Peninsula and the Balearic Islands will be replaced by one similar to that used in the EC.

Nontariff controls for imports of agricultural products into the Canary Islands, Ceuta and Melilla will remain unchanged. However, all three areas will continue to enjoy the privileges of a free-trade zone.

Imports from Portugal will be subject to import controls in a range somewhere between those applied to EC countries and third countries.

Quotas To Be Relaxed

Apart from its commitments to the EC, Spain's major trade barriers affecting U.S. imports are the domestic consumption quota for soybean oil and the minimum content requirement of domestic leaf for cigarettes.

The Spanish government is expected to gradually increase the quota of soybean oil which may be consumed domestically from the current 90,000-ton level.

On the other hand, Spain's requirement that locally produced cigarettes are to contain minumum percentages of domestic leaf is not expected to disappear in the transition period following accession.

U.S. Teamwork Promotes Exports

Stationed in Madrid, the U.S. agricultural counselor and staff work to expand the market for U.S. exports by carrying out promotional activities and by working with U.S. market development cooperators active in Spain.

These cooperators are commodity associations or regional trade groups that work together with USDA's Foreign Agricultural Service on generic promotions of U.S. agricultural commodities.

Currently, 12 market development cooperators have active programs in Spain. And two cooperators—the U.S. Feed Grains Council and the American Soybean Association—have permanent offices there.

In 1985, cooperators were successful in promoting a number of commodities. For example, the Southern United States Trade Association worked with the agricultural counselor to arrange promotional meetings for a forest products trade team. Meetings scheduled with Spanish trade associations, importers and end-users in Madrid and Valencia resulted in substantial business transactions.

The American Soybean Association has been working in Spain to improve soybean meal utilization by the mixed feed industry. The Association also introduced new industrial uses of soybean oil and provided technical assistance on the use of soybean meal in aquaculture.

The U.S. Feed Grains Council carried out a number of activities to assist the Spanish livestock sector in improving feeding and management practices. Efforts resulted in increased grain consumption.

Other cooperators active in the Spanish market include: The USA Dry Pea and Lentil Council, Holstein-Friesian Association, U.S. Wheat Associates, Cotton Council International, Cotton Incorporated, National Peanut Council, National Renderers Association, Tobacco Associates/Burley Export Association and Mohair Council of America. ■

The author is the U.S. agricultural attache in Madrid.

Spain's Accession Gives EC Farming New Dimension

By Jose E. Vidal

Spain's accession to the European Community (EC) earlier this year significantly changed the EC agricultural situation.

Agriculture was at the heart of the long, difficult accession negotiations for good reason. The EC already had embarked on a reform of its own agricultural policy. Including Spain meant the addition to the Community's agricultural base of over 2 million farms, a labor force of 2 million and more than 27 million hectares, as well as an increase of 38 million consumers.

With the addition of Spain, the amount of land under cultivation in the Community increased by about 27 percent; the number of farms, by over 32 percent; and the number of jobs depending on agriculture, by 24 percent.

These major changes are comparable to those resulting from the first two enlargements together.[1]

The Community's new, large agricultural area has a higher proportion of small farms and lower average efficiency per person engaged in agriculture compared with other sectors.

Farming Important to Spain's Economy

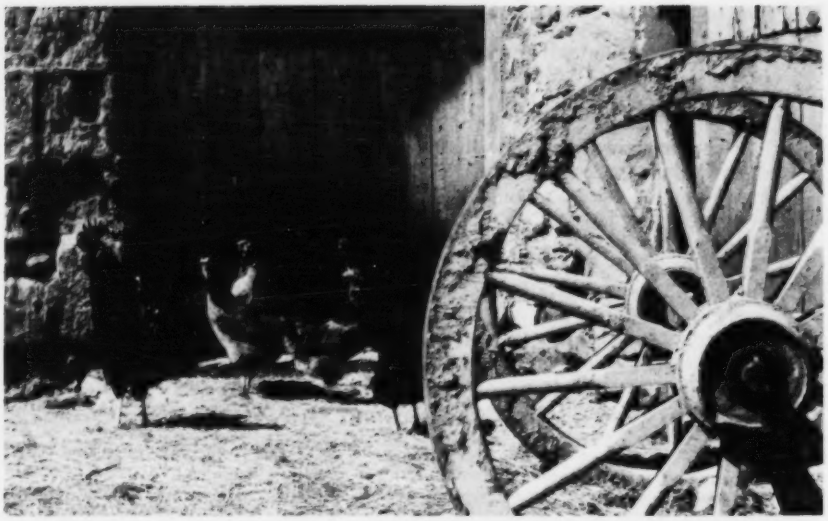
Spain has the second largest farming area in the EC-12 and depends on agriculture for around 7 percent of its gross domestic product.

Spanish agriculture is important in terms of jobs and trade. It employs 18 percent of the nation's labor force, compared to 7.5 percent in the EC-10, and accounts for about 16 percent of total exports, compared to 9 percent for the rest of the EC.

The agriculture of Spain is similar to that of the south of France, the Italian Mezzogiorno and Greece. Crop farming accounts for over 56 percent of total agricultural output compared with 43 percent in the EC-10. Livestock production makes up 43 percent of total agricultural output value against 57 percent in the EC-10.

[1]The EC increased its membership from the original six countries—Belgium, France, Germany, Italy, Luxembourg and the Netherlands—to nine in 1973 with the addition of Denmark, Ireland and the United Kingdom, and to 10 in 1981 with the addition of Greece. Spain and Portugal joined the EC in 1986.

Black Star



Spain is something of a microcosm of agricultural production. It has the same proportion of land under grain production as does the EC-10, but southern-climate crops—vines, olive trees, fruit and vegetables, rice, flowers and ornamental plants and sunflowerseeds—are far more important. They represent one-fourth of total agricultural land use, but only 11 percent in the EC-10. Most of this difference is accounted for by vines and olive trees.

Crops such as citrus, pulses and almonds that are of relatively minor importance in the EC-10 occupy a prominent position in Spain. Conversely, crops of major importance in northern EC countries, such as sugarbeets and fodder crops, are considerably less important in Spain.

Sheep, goat and pig production in Spain is much the same as in the rest of the EC, but cattle numbers are considerably smaller. Expansion of Spain's livestock industry is limited by inadequate infrastructure. However, Spain does have fairly efficient pig and poultry industries largely based on the use of corn and protein meals—notably soybean meal—for feed.

Spain is heavily wooded (a third of the total area compared to only a fifth in the EC-10) and the amount of land permanently under grass is substantially smaller than in most northern EC member states.

Tough Conditions for Farming

Although Spanish agriculture is big, it still has a long way to go to reach its optimum degree of productivity.

Spanish farmers have to contend with natural conditions that are often unfavorable—mountanious terrain, poor soils in many regions and inadequate or uneven rainfall. Small farms and insufficient use of fertilizer and mechanization also contribute to lower productivity.

Irrigation, a key factor in increasing productivity in Mediterranean agriculture, is somewhat unevenly developed. Six of the 17 autonomous regions of Spain (Andalusia, Aragon, Valencia, Catalonia, Extremadura and Murcia) account for about 70 percent of the total area under irrigation.

In all, about two-thirds of the nation's farmland is irrigated. Cash crops such as fruit and vegetables, flowers, cotton, sunflowerseed and corn are produced on this land. Owing to scarcity of water, irrigation of vineyards is prohibited.

Spanish agriculture has considerable potential for productivity gains. Such gains could be derived from expanded irrigation, consolidation and restructuring of farms, increased use of modern production techniques, and the use of at least a part of the 4.8 million hectares of fallow land which represent 17.5 percent of the agricultural area.

Complementary Productivity

To some extent, the agricultures of the EC-10 and Spain complement one another. The EC-10 has a surplus of grains, sugar, potatoes, meat, milk and dairy products, whereas Spain is a net importer of most of these commodities.

Spain, on the other hand, is a large producer of oranges, tangerines, table grapes and nuts, of which the EC-10 is a net importer. However, if production levels remain as they were before enlargement, Community surpluses of olive oil, rice, certain fruits and vegetables, processed tomatoes and wine could well arise or increase.

Special Transition Measures

Since Spain does not fit easily into programs of the Common Agricultural Policy (CAP), its integration will be gradual. Customs duties are to be abolished in stages, while price and subsidy levels will rise gradually to those of the rest of the Community. An exception is the immediate application of the EC variable levy on grain imports, which is to the detriment of U.S. corn exports to grain-deficit Spain.

As with previous enlargements of the Community, price gaps during the transition will be offset by "accession compensatory amounts," to adjust the price of commodities moving between new and old member states.

The basic transition measures, spread over seven years, were not considered sufficient for a range of sensitive products whose too-rapid integration into the CAP would risk the disruption of the markets of one of the partner countries.

Special transition measures for such cases often extend over 10 years. Thus, it will be 1996 before Spanish farmers are fully integrated into the CAP. Special transition measures cover:

Wine. Community wine market management rules apply to Spain from the outset. To reduce the risk of market disturbance, a specific regulating amount will offset the difference between Spanish and EC prices during the seven-year transition.

A reference ceiling has been established for Spanish wine production. Once it is exceeded, distillation of the surplus is obligatory.

Finally, a complementary trade mechanism sets import guide levels, allowing an agreed and gradual expansion from traditional trade patterns. This is intended to ensure an orderly opening of markets and, if necessary, rapid control measures.

Olive oil and other fats and oils. The scale of Spanish production and its high degree of protection required a 10-year transition period. To avoid building surpluses which threatened to be substantial, Spanish import controls are to be maintained for five years on oilseeds and olive oil. Community rules are expected to be revised soon.

Fruit and vegetables. In the first four years of the 10-year transition, Spain is to create structures which conform to Community rules. Other producers in the EC also will adapt to the new market conditions.

During this period, trading restrictions will remain close to those applied before enlargement. Tariffs will begin to be dismantled, but Community prices will not apply in Spain until the second progressive six-year phase. The complementary trade mechanism will also apply in this sector.

Other products. Milk and dairy products, beef and soft wheat are among northern EC-produced products which cause problems for Spain. Here again, the complementary trade mechanism will apply for 10 years.

Future Outlook Is Mixed

Barring major changes in CAP programs, the outlook for Spanish production of key agricultural commodities is as follows:

Grains. Production of most grains is expected to increase moderately in a few years. Barley output, however, is likely to decline since roughly 50 percent of Spain's barley production does not meet test weight levels set by the EC.

Wheat production, particularly of durum and feed-grade wheat, will increase, encouraged by higher EC prices, subsidies and shifts from barley to wheat production.

Corn output is projected to rise to about 4.0 million metric tons in three years, encouraged by a more favorable price structure and expanded irrigation.

Rice production—formerly strictly controlled by the government—is projected to show some gains due to liberalization of production and better prices.

Olive oil. The five-year control of the relationship between consumer prices of olive oil and competing oils and the domestic consumption quota for soybean oil should prevent a decline in olive oil production. However, after five years the situation may change altogether, with a likely reduction in output of olive oil which is in surplus in the EC.

Oilseeds. With the progressive alignment of Spanish prices with substantially higher EC prices, plus Community aids, Spanish sunflowerseed production may increase from 1.0 to 1.5 million hectares by 1990.

Competition from other cash crops—corn, sunflowerseed and cotton—and seed innoculation and varietal development problems are likely to continue to deter significant expansion in currently minimal soybean production.

Cotton. The EC's threshold system of application to Spain and Greece makes it difficult to forecast how Spanish cotton production may evolve in the next few years. Theoretically, Spain has the potential to expand cotton production, but the actual amount produced will depend largely on the threshold price and on imports of textiles.

Indications are that the Spanish textile industry is likely to face keen competition from textiles imported from Portugal and other countries. In anticipation of this situation, the government is considering removal of the import duty levied on cotton to help the domestic textile industry.

Sugar. Constrained by prices substantially higher than in the EC and the limited sugar production quota assigned by the Community to Spain, sugarbeet production is not expected to increase in the next few years.

Black Star

Fruits and vegetables. This is perhaps the subsector with the brightest future in the entire Spanish agricultural economy. While few gains in production are likely to be made in the next four years, the longer outlook for Spanish fruit and vegetable production is for significant expansion at the expense of non-EC members and greenhouse producers in the northern EC countries.

The major constraints to this expansion are the limited frost-free areas and irrigation water supplies.

Nuts. No significant almond production gains appear likely in the first few years following accession. However, in seven years, the EC's external tariff will no longer be applied to Spanish almonds. Although production increases cannot be ruled out then, interest in almonds is not keen among Spanish producers.

Wine. Spain is expected to reduce wine output mainly through incentives for abandonment of vineyards. At the same time, Spain will strive to improve the quality of its wines through rejuvenation of vineyards, better varieties and new production techniques.

Livestock. While beef production is likely to show a significant decline, sheep and pork production is expected to remain more or less stable in the next few years. Spain could eventually become a key supplier of high-quality lamb meat to other EC countries.

Dairy. The 5.4-million-ton milk quota assigned to Spain by the EC impedes production expansion. While the quota can be renegotiated in two years, the industry's consensus is that Spain's dairy production will remain at present levels during the next four to five years.

Poultry. Despite the negative effect of threshold prices for imported products, producers are moderately optimistic that poultry production may expand in the next few years because exports will enjoy restitutions for the first time.

Forest products. Spain has the potential to expand its production of forest products considerably. Unfortunately, this subsector is not under the CAP and the Spanish government has never had a forestry policy. Better management and production incentives will be necessary for growth to occur. ■

The author is senior agricultural specialist in the Office of Agricultural Affairs in Madrid.

Fact File

The EC's Common Agricultural Policy

The Common Agricultural Policy (CAP) forms a basic part of the European Community (EC). It can be best described in terms of three principles: common pricing, Community preference and common financing. Common pricing involves the establishment of a Community-wide price system, whereby a single level of price support is supposed to apply for each farm commodity throughout the Community. Community preference ensures that domestic products will always have a competitive advantage over the imported like product. Common financing requires the Community to fund any activity or effort that may be required to affect the Common Agricultural Policy.

CAP Relies on Price Supports

The CAP relies largely on a price support policy to maintain farmers' incomes; direct or deficiency payments are presently used only on a very limited basis. Although the method of price support varies somewhat from product to product, certain basic concepts are nearly universal.

Internal prices are maintained in two ways. First, levies and duties facing imported commodities which compete directly with Community production are set at such a level so as to ensure that those commodities cannot be sold at a price less than the EC support level. Second, intervention buying is used to withdraw excess supplies from the market and strengthen prices. Finally, export subsidies are granted by the EC to allow surpluses to be sold on the world market.

The magnitude of levies and subsidies and the extent of intervention buying are determined in most sectors by reference to three Council-mandated price levels:

—The target price (also referred to as the guide price or market price, depending on the commodity) officially represents the price farmers should receive for their production under desirable market conditions.

—The threshold price (also reference price or minimum import price), which is derived by subtracting transportation costs from the target price, represents the price below which no imports can enter into the Community.

—The intervention price (also buying-in price or reference price) is the price at which government buying is triggered. In some sectors, the Community is obliged to buy any product offered at the intervention price; in others, the Commission has some discretionary power.

How Import Levies Are Determined

Import levies are calculated by determining the lowest third-country offer price and subtracting that from the threshold price. In most sectors, the same levy is applied to all imports regardless of their c.i.f. price. Export subsidies are calculated to make up the difference between the internal price and the price on the world market. The level of the subsidy can vary by export destination.

The system described above applies with only minor variations to cereals and rice, milk and milk products, beef and veal, olive oil and sugar. Similar mechanisms are employed for fruits and vegetables, pork and wine. Price support for poultry and eggs depends entirely on import

protection and export subsidies. Production quotas are in effect in the sugar and milk sectors. In addition, there are "guarantee thresholds" in place in some sectors which in theory discourage excess production by translating one year's surpluses into lower guaranteed prices the following year. In practice, the system has never really been applied as intended.

For a few commodities, notably durum wheat, oilcrops and processed fruits and vegetables, direct or indirect subsidies are paid to EC producers and processors. In other cases, subsidies are paid to stimulate domestic consumption of EC farm products. In the case of olive oil, both producer and consumer subsidies are paid.

National Farm Prices Vary Considerably

Common agricultural prices are now expressed in European Currency Units (ECUs). Prior to April 9, 1979, (before the use of the ECU was extended to agriculture) common prices were expressed in agricultural units of account (EUA). Although agricultural prices are fixed in terms of ECU's for the Community as a whole, national farm prices vary considerably in reality.

These variations result from fluctuations in exchange rates of the various member state currencies. To avoid abrupt changes in member state prices (in terms of national currencies) as a result of these fluctuations, the EC used special conversion rates (representative or green rates) when administering the CAP. In many cases, these rates do not agree with the actual market values of the national currencies. Consequently, the use of these conversion rates results in different real price levels in most EC member countries.

To avoid disruption of national markets because of these price differences, the EC has established a system of Monetary Compensatory Amounts (MCAs). In strong-currency countries where prices are often kept higher than the Community norm, positive MCA's are applied as export subsidies and import taxes, while in weak-currency countries, where prices often drift below the normal level, negative MCA's are applied as export taxes and import subsidies.

The EC has tried various methods for getting rid of this complicated and costly system. In an effort to reduce the size of positive MCA's, in 1984 the EC Council created the "green" ECU for use in setting farm prices. The green ECU, which is still in use, is worth 3.5 percent more than the normal ECU.—*Prepared by the Office of Agricultural Affairs, U.S. Mission to the European Community, Brussels.*

European Community Will Regulate Flow of Spanish Wines

By Diego Perez de Ascanio and Edmund L. Nichols

With more area in vineyards than any other country in the world, and a centuries-old tradition of winemaking rivaling that of its European Community (EC) partners, Spain now ranks as the fourth largest wine producer in the world and the third largest exporter.

Given this successful track record, it is not surprising that Spanish wines were among the sensitive agricultural products targeted for special treatment in the difficult negotiations that preceded Spain's accession to the EC.

Because rapid integration of wine into the programs of the EC's Common Agricultural Policy (CAP) would risk disruption of the markets of other member nations, a 10-year transition period will be required before the Spanish wine sector is fully integrated into the CAP.

From the outset, Spanish wines were placed under Community market managemernt, including a ceiling for wine production.

Distillation Program Will Continue

Spain produces about 35 million hectoliters (1 hectoliter = 100 liters) of wine and a half billion kilograms of table grapes annually. Ordinary table wines account for the largest volume of production—nearly five times as much as the 6 million hectoliters of Appellation of Origin wines.

Since 1979, Spain has had a surplus of ordinary wine which has led to government-supported distillation of an average of 7 million hectoliters per year. This program has created cumbersome and costly alcohol stocks which have been exported under subsidies.

The EC Commission has set a limit on table wine production and requires distillation of the surplus once the limit has been reached. However, it will take seven years to align prices paid for distillation with those in the Community, which are currently 50 to 60 percent higher than those paid in Spain.

Community Seeks Acreage Reduction

Because of poor soil and scarce rainfall in many growing areas, and a government ban on irrigation of vineyards, Spanish vineyards yield less than half of those in France and Italy.

To reduce wine output further, the Community is offering incentives to Spanish farmers to abandon 200,000 hectares of vineyards during the next two wine seasons.

Although Spain will participate in the abandonment program, the Spanish government is cautious about extensive uprooting of vineyards in areas that lack alternatives to labor-intensive wine production.

In addition to abandonment, Spain has promised to continue to ban vineyard irrigation. At the same time, more attention will be devoted to improving the quality of wines by rejuvenating old vineyards and using better varieties.

Production Changes Necessary

Accession into the EC will force Spain to make other production changes as well. For example, the EC ban on "coupage"—blending of white and red wines—will necessitate some switches from white to red grape varieties.

Community requirements on minimum and maximum alcohol contents will force production restructuring of some north coastal light wines, which have an unusually low alcohol content owing to climatic conditions, as well as wines

Casa CODORNÍU

produced high above sea level, which consistently have an exceptionally high alcohol content. Affected areas will include such important zones as Yecla and Utiell-Requena.

Export Prospects Are Hampered

Although the Community's complementary trade mechanism allows for gradual expansion of trade, EC regulations are having some negative effects on Spanish wine exports, especially in the important European market.

As part of the gradual integration process, dismantling of customs duties on Spanish wines exported to other member countries will occur over a seven-year transition period.

However, except for its unique sherry and Malaga wines exported to other member countries, Spain will not be able to gain more of the European market because of lower Spanish prices. During the transition period, the volume of Spanish wine will be regulated to fill the gap between EC and Spanish prices.

Spanish sparkling wines produced under the "Methode Champanoise" (champagne method) have gained a strong following in export markets, currently outselling French champagne in the lucrative U.S. market.

However, in the future, at the insistence of the French, reference to "champagne method" production must be deleted from Spanish sparkling wine labels. On the other hand, the Community has denied Spain exclusive labeling rights for sherry wines from the Jerez region of Spain.

U.S. Market Eyed

While Spain awaits the outcome of the accession transition period, the wine sector is keeping an eye on the U.S. market where it hopes to build an improved distribution structure along with a reputation for quality and value. Now that sparkling wines have been successfully introduced into the United States, the Spanish hope to parallel that success with their red wines. ■

Perez de Ascanio is an agricultural specialist and Nichols is the agricultural counselor in the Office of Agricultural Affairs in Madrid.

Rising Greek Soybean Use Favors U.S. Imports

By Miles Lambert

Greece could be on the verge of significantly boosting its imports of soybeans, most of which to date have come from the United States. The key to realizing this growth is in Greece's hog sector, as well as the soybean crushing and mixed-feed industries that support it.

Greece's soybean imports could reach 335,000 tons by 1987, a third higher than in 1985. Just as development of Greece's poultry industry in the 1960s and early 1970s fueled the country's imports of soybean meal, so the expansion of the hog industry could make for larger imports of soybeans, especially in light of the underutilization of Greece's mixed feed industry.

Before 1974, Greece imported soybean meal, not soybeans. The original impetus for those imports, which had reached 75,000 tons in 1974, had been the burgeoning Greek poultry industry, the sector most conducive to rapid modernization. The Greek government hoped to meet growing demand for meat with more domestic output and fewer imports.

A Shift to Pork Output

The momentum toward pork output and consumption started in the second half of the 1970s. The Greek Pork Meat Producers Association used a variety of promotional measures to gain acceptance for their product. They also secured a place for pork in Greek fast food services, which now account for roughly one-tenth of Greek pork consumption.

Traditional souvlaki stands now use pork almost exclusively for their skewered meat. The pork producers association was also instrumental in having pork days instituted. On certain days of the week, restaurants were required to offer some pork dishes.

As a result of these efforts, Greek per capita consumption rose from 6.1 kilograms in 1970 to 21.2 kilograms in 1983 at a time when total meat consumption grew from 47.7 to 72.6 kilograms. Pork production in that period increased from 52,000 tons to 148,000 tons, compared to 304,000 and 492,000 tons, respectively, of total meat output.

Greek hog producers were also benefiting from improved mixed feeds available at encouraging prices. Feed compounders, who had geared up to supply the growing poultry industry, were finding that production of mixed feed for hogs was an efficient way of utilizing excess capacity.

The compounders made use of grain purchased at subsidized prices from the government grain collection agency. Most of the corn, like all of the soybean meal, had to be imported, but it was more advantageous for Greece to import feed ingredients than meat.

Impact of EC Accession

During the second half of the 1970s, Greece's prospect of achieving full membership in the European Community (EC) by 1981 threatened Greece with a growing import bill for both meat and feedstuffs because of EC requirements to which Greece would be subject.

Notably, Greece would have to buy more beef from the EC and less from neighboring Yugoslavia, a lower cost producer. At the same time, Greek imports of non-EC corn would be subject to EC import levies. Consequently, it became imperative for Greece to develop its hog sector, as well as to expand its corn production.

The outlook for significant growth in Greek red meat production is largely confined to pork. The country's traditional sheep and goat sector is presently hindered by the declining availability of shepherds. And beef production is expensive relative to other EC producers.

Feed Compounders Look to Pork Sector

Mixed-feed compounders are highly aware of the potential in the pork industry. Unlike the poultry industry, which is fully industrialized, there is still significant room for modernization of feed practices in the pork sector.

Improvement in the efficiency of pork marketing, especially the use of byproducts, eventually could result in lower prices for pork vis-a-vis competing meats. The potential for Geek pork is indicated by the increase in pork imports from 2,000 tons in 1976 to nearly 60,000 tons in 1984 (mostly from EC suppliers).

Traditionally, corn has been the preferred energy source for Greek feed compounders. Imports reached a high of 1.2 million tons in 1979, when Greek production amounted to roughly 750,000 tons. Use of high-yielding varieties on irrigated land enabled Greek corn production to mount beginning in the late 1970s.

Greece became a net exporter of corn by 1984, when production reached a record 2 million tons, with exports at about 250,000 tons (to the EC, mostly for the starch industry). Further needs brought about by livestock sector developments are certain to be met by domestic corn production.

Greece is not likely to become a soybean producer. The competition of corn, cotton, sugarbeets and, lately, sunflowerseed, for the irrigated land that would be necessary to the task, make the prospect most unlikely in the foreseeable future.

Consequently, imports of soybeans will remain indispensable to livestock production in Greece. Near-term import growth, however, might depend as much, if not more, on soybean product and mixed-feed exports as on Greek livestock production increases.

A new development, however, is expected to contribute to expanded domestic consumption of soybeans. The crushing firm, Soya Hellas, is establishing a new section within the company to process full-fat soybeans, which will be targeted for sale in Greece this summer.

Soybean Crushing Plants Underutilized

The first two Greek soybean crushing plants were constructed in the mid-1970s, giving the country an annual crushing capacity of 280,000 tons. Two more plants were added in the early 1980s, nearly doubling capacity to 540,000 tons.

Black Star

However, in 1985, only two of the four plants actually crushed soybeans. With soybean imports at 250,000 tons in 1985, capacity is still significantly underutilized.

The main customer of the soybean crushing plants is the Greek mixed-feed industry, which is dominated by three producers: Elviz, with a capacity of about 170,000 tons annually; Viozokat, with about 150,000 tons; and Agroinvest, with about 150,000 tons.

The Agroinvest facility, which is located at seaside to receive overseas shipments, is attached to a soybean crushing plant and is not yet fully operational. Elviz, meanwhile, is expanding its annual capacity by about 60,000 tons.

Owing to excess capacity for which domestic livestock producers had no need, Viozokat and Elviz began exporting mixed feeds during the 1970s, in some years shipping as much as 40 percent of production abroad.

Among these firms' customers are the centrally planned countries of Eastern Europe (paying in hard currency) and, increasingly, countries of the Middle East. Agroinvest, partly funded with Lebanese capital, was exporting both soybean meal and mixed feeds to the Middle East from inception.

Soybean Oil Disposal Hinders Crushing

A major hindrance to full utilization of Greece's soybean crushing capacity has been the burdensome disposal of the soybean oil produced. Since 1974, Greece has required that the oil be exported, except for small amounts purchased by the government.

Seed oils compete with olive oil, an important crop to many Greek farmers, and thus a politically sensitive one. Nevertheless, according to its accession agreement with the EC, Greece was to liberalize its vegetable oil market, and rescind the seed oil export requirement as of Jan. 1, 1986.

Greece is currently seeking a postponement and has yet to comply with the January 1 deadline. With the seed oil export requirement out of the way, crushing plants would find their oil stocks more manageable, which would likely encourage greater use of crushing capacity.

The United States has been the primary beneficiary of Greece's expanding soybean crushing industry. In 1985, almost four-fifths of the 250,000 tons of soybeans imported came from the United States. The remainder came from Argentina.

Imports from the United States have been conditioned by the strong, traditional preference of Greek feed compounders for the quality (high protein content) of the meal produced from U.S. beans. If U.S. shippers are attentive to holding that advantage vis-a-vis cheaper Argentine soybeans, the United States stands to gain from Greece's further use of its soybean crushing capacity. ■

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Country Briefs

China

Grain Output To Recover After Slippage Last Year

China's grain production is expected to recover in 1986 after slipping last year for the first time in this decade. The procurement policies of 1985/86 were intended to produce a moderate reduction in grain outturn. However, excessive rain and flooding in the northeast, dryness in other parts of China, and larger-than-expected cuts in area reduced grain production by a margin that sparked some concern in China.

The 1986/87 policies are termed a refinement of the more market-oriented policies introduced in 1985/86. The overall returns to grains will be higher this year. The result is expected to be a further expansion of wheat area and production. Plantings of corn and other feed grains will return close to 1984 levels, and rice area will partially recover. A further shift to single-crop rice production, coupled with the continued emphasis on oilseeds and other cash crops, will also reduce the expansion of rice area.

Reflecting the bumper harvests of 1984, China entered the world market as a major feed grain exporting nation in 1984/85. Due to national emphasis on earning foreign exchange, corn exports are likely to continue this year despite a 13-percent reduction in production. Likewise, in spite of definite feed grain shortages in southern China, there is as yet no indication that China will have any major imports in 1986/87. Wheat imports are expected to rebound slightly from the reduced levels of 1985/86 while rice exports should remain at around 1 million metric tons.—*David M. Schoonover, Agricultural Counselor, Beijing.*

Japan

U.S. Wines Do Well Despite Cut in Overall Imports

Japanese imports of bottled wine have fallen sharply since November 1985 as a result of adverse publicity about diethylene glycol found in European wines and locally bottled wines which contained wine imported in bulk from Europe. But even as total wine imports during the four-month period from November 1985 to February 1986 plunged 39 percent below year-earlier imports, imports from the United States rose 78 percent. As a consequence, the U.S. market share rose from 4.3 percent to 12.5 percent.

The weaker dollar has made U.S. wines much more attractively priced in Japan. However, not all of the change in the exchange rate has been reflected in the retail prices of all U.S. wines. Some importers have chosen to increase distribution margins instead, but this has also encouraged more aggressive marketing for U.S. wines since wider margins mean higher profits.

In addition, the Wine Institute began an ambitious marketing program in Japan in July 1985, which has increased interest in California wines on the part of importers, distributors and consumers. Also, since California wines were not touched by the wine scandal, importers and distributors have been eager to buy at least part of their wine from California.—*Bryant Wadsworth, Agricultural Counselor, Tokyo.*

Sri Lanka

Wheat Consumption Catching On

While rice remains the staple food grain in Sri Lanka, wheat has become a fixture in the diet of a certain segment of the population, particularly workers and laborers. Since Sri Lanka is not a producer of wheat, all its requirements are met through government imports. In fact, wheat is the principal commodity imported by Sri Lanka on both a commercial basis as well as through Title I of Public Law 480.

Wheat is a part of the traditional diet of Sri Lanka's Tamil population in the northern region and on tea estates. However, it is not the staple diet of the majority of the population. But a preference for wheat products is continuing to expand among the affluent member of society. Wheat consumption during the 1985 marketing year totaled 640,000 tons, up nearly 13 percent from the year before. A further gain in consumption to perhaps 660,000 tons is expected in 1986.

Approximately 60 percent of the available wheat flour is used for making bread. The balance is used for confectionery products, chapatis and raw and instant noodles. All wheat continues to be milled exclusively for the government and turned over to the Food Commissioner for distribution through a network of approximately 5,000 consumer cooperative societies.

Through promotional efforts of U.S. Wheat Associates, the Sri Lankan army has shown an interest in wheat products other than bread, particularly noodles, and a production facility has been installed in Sri Lanka. Noodles are also being served to Sri Lankan government officials—another step towards increased wheat consumption.—*W. Garth Thorburn, Agricultural Counselor, New Delhi.*

France

Wine Exports Reach New Record In 1985

French wine exports reached a record high of 11.9 million hectoliters in 1985, up 4 percent from 1984. Their value, at roughly $1.9 billion, was up 18 percent. The increase was mainly due to larger sales of champagne and other high-quality wines, which accounted for more than three-fifths of the increase in volume and 91 percent of the rise in value. Sales of ordinary table wine, however, remained stagnant in volume relative to 1984.

Wine sales made a major contribution to French agricultural trade last year. The export value was nearly eight times the value of imports, producing a surplus of roughly $1.7 billion. This surplus ranked second behind that of grains and represented 44 percent of France's agricultural trade surplus.

On a volume basis, West Germany remained France's major export market for wines last year, followed by the United Kingdom. The United States and Belgium/Luxembourg were third and fourth, respectively.

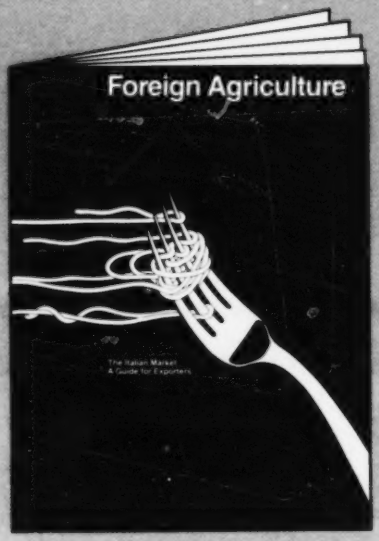
The United States was actually France's top wine market on a value basis in 1985, reflecting the larger percentage of champagnes and quality wines sold to the United States. Sales to the United States were up 17 percent from 1984 and represented more than a fifth of the value of French wine exports. Wine is a key commodity for French trade with the United States, representing 44 percent of French agricultural exports (and 5 percent of French total exports) to the United States in 1985.—*Ernest Koenig, Agricultural Counselor, Paris.*

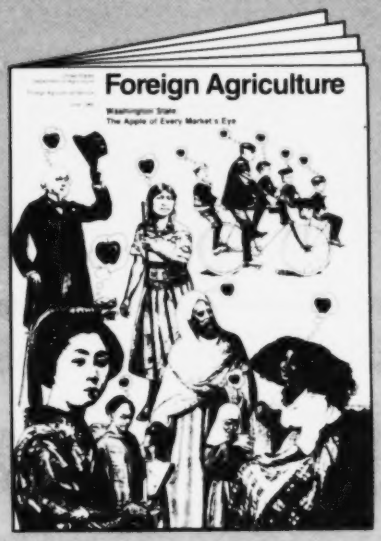
Singapore

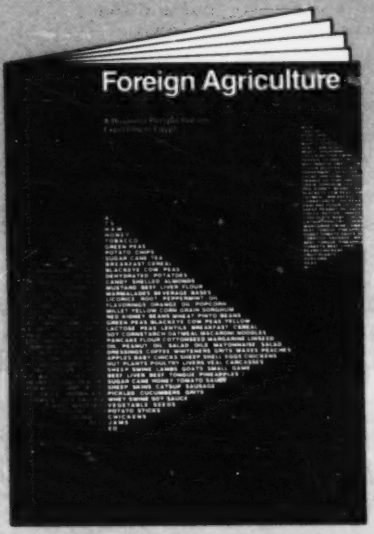
Wine/Salad Bar To Open

Salad bars and wine bars are new to Singapore's restaurant scene—and their presence may in time offer some potential for U.S. exporters. Right now, however, managers of these outlets are purchasing produce and wines largely from other sources due to the relatively high price of U.S. goods. Efforts to keep costs and prices to a minimum appear to be more important than product quality in managers' purchasing decisions.

Australia currently is the chief source of supply for iceberg and romaine lettuces and cherry tomatoes, and shares the honors with local suppliers for cucumbers. Holland supplies Belgian endive and butter lettuce and Italy is the supplier for red frieze and chicory. Local suppliers provide most of the mushrooms.—*Peter O. Kurz, Agricultural Trade Officer, Singapore.*







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